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FACULTY OF BUSINESS AND MANAGEMENT  
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# CREATING OF SMALL COMPANY AND STRATEGY OF ITS DEVELOPMENT

ZALOŽENÍ MALÉHO PODNIKU A STRATEGIE JEHO ROZVOJE

DIPLOMOVÁ PRÁCE

MASTER'S THESIS

AUTOR PRÁCE

AUTHOR

BC. JINDŘICH FÁBORSKÝ

VEDOUCÍ PRÁCE

SUPERVISOR

PROF. ING. VOJTĚCH KORÁB, DR., MBA

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**Fáborský Jindřich, Bc.**

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L.Š.

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doc. Ing. Tomáš Meluzín, Ph.D.  
Director of the Institute

---

doc. RNDr. Anna Putnová, Ph.D., MBA  
Dean of the Faculty

Brno,  
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## **Abstrakt**

Tato diplomová práce se zabývá vytvořením podnikatelského plánu pro malou společnost, která přichází na trh s novým, technologickým produktem. Společnost, která se již jeden rok pohybuje v oblasti jazykových kurzů vyvíjí software pro reálnou výuku přes internet. Jelikož se jedná o zcela nový koncept, je třeba ověřit, zdali existuje poptávka na trhu ze strany jazykových škol, soukromých lektorů a především samotných studentů. Pro pochopení motivů zákazníků byl použit primární výzkum prostřednictvím dotazníků. Technologický produkt jež je předmětem podnikatelského plánu je již ve vývoji a měl by být uveden na trh v dubnu roku 2012.

## **Abstract**

This diploma thesis deals with development of a business plan for a small company, which is going to launch a new technological product to the market. The company, which has already been operating in the field of language courses for a year, is developing software for real teaching through the Internet. As it is a completely new product it is necessary to check if there is sufficient demand on the market from the group of language schools, private teachers and especially from students themselves. For understanding the motives of the customers the author used a primary research made through the questionnaires. Described technological product, which is the subject of the business plan, is in progress at the moment and is supposed to be launch to the market in April 2012.

## **Klíčová slova**

online hodiny, small business, start-up, internetový marketing, jazykové školy, soukromí lektoři, studenti

## **Keywords**

online lectures, small business, start-up company, internet marketing, language schools, private lecturers, students

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## **Declaration of originality**

I declare that this master's thesis is original and has been written independently. I also declare that the list of references is complete and that I did not breach of copyright in the sense of Act No.121/200 Coll. on Copyright Law and Rights Related to Copyright and on the Amendment of Certain Legislative Acts.

Brno, 30th August 2011

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Bc. Jindřich Fáborský

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# **1 Introduction**

The Internet era brought amazing possibilities for its users. In 2010, 1.97 billion Internet users sent 107 trillion emails. They were uploading 35 hours of video on the server Youtube or posting 3000 photos on Flickr every minute in average. (PINGDOM, 2011) This fast-changing digital world brings new opportunities for the entrepreneurs, who are not afraid to take the risk.

There are ways how to minimize the risk of entrepreneurship and one of them is business planning. Planning is an essential part of any small business and it should not stop with the first initial business plan or the business idea description. In this diploma thesis there are described and investigated reasons for developing the full version of a business plan.

This diploma thesis proposes a business plan for a company operating in the new, emerging industry of online educational lectures. The company is developing a platform for teaching foreign languages through the Internet. With the contribution of academic literature and analytical tools the author of this thesis investigates the customer needs, the demand for a new service and the whole market potential.

The diploma thesis is divided into three main parts. In the theoretical part there are introduced the definitions of the fundamental concepts, such as small business, a start-up company and business planning. The analytical part employs the primary research and the analytical tools such as Porter's five forces model, SWOT analysis or PEST analysis for the investigation of external and micro environment of the company. The final part introduces the full version of the business plan for a small internet-based company operating on Czech and Slovak market.

As it is written in this diploma thesis, a business plan can help to lower the risk of entrepreneurship. A developed business plan will help to identify the potential problem areas and connected solutions. It will help to crystallize the idea and think-out more deeply about the particular steps needed to reach the goals formerly set. The business plan proposed in this diploma thesis will play the role of a major guideline for the company.

## 2 Problem specification and objectives

The main objective of this master thesis is to propose **a business plan for development of a small company** oriented to providing Internet services. A business plan in this case determines the process of creation of the company, its goals in short and long term and the strategy of its development. The main objectives of this diploma thesis include:

- Understanding of theoretical underpinning of business planning
- Development of the full business plan for a company
- A critical analysis of the company business environment
- Development of SWOT analysis of the industry
- Evaluation of risks connected with the idea
- A proposal of strategic options for the future development of the company

This master thesis includes an analysis of business environment of determined Internet company, a market research, concrete steps of development of a small company with the timeline of its development and the design of a financial plan.

The business plan proposed in this paper is connected to an Internet application called OnlineLektor. This application allows language schools and private lecturers to search for students and to teach them. The application has been already developed. Team members involved in this project cooperate actively with language schools, private lecturers and students themselves. Income from this application comes mainly from commissions of hours, which were done on server, from sales of banners and in the following phases also from the fees paid by language schools for showing their profiles. Except the essential opportunity of teaching via the Internet, the company offers language schools many tools for their promotion.

## **2.1 Methodology of the diploma thesis**

Methodology applied in the diploma thesis includes also secondary data provided by Czech statistical office, GFK Czech, s.r.o., CzechInvest agency and analytical literature.

### **3 Theoretical approach**

A theoretical approach addresses the main points from the field of entrepreneurship, business plans and strategic management. This chapter provides also an insight in the utilized tools as the SWOT analysis and the Porter's 5 forces model.

## **3.1 Entrepreneurship, entrepreneur and enterprise**

### **3.1.1 Entrepreneurship**

There are various ways how to define the term - entrepreneurship. Joseph A. Shumpeter (1934) placed an emphasis on innovation, when he was defining the entrepreneurship. He describes that an entrepreneur applies innovation to satisfy unfulfilled market demand. The innovation in this case is meant mainly as new products, opening of new markets or an introduction of a new method of production.

Peter Drucker (2007) for example looks at this term from higher perspective. According to him, entrepreneurship is neither a science nor an art. He states that entrepreneurship is not just about making money but it is about imagination, flexibility, creativity, willingness to think conceptually, readiness to take the risk and the capacity to see change as an opportunity.

Zacharakis et al. (2000) highlight similar points when they see entrepreneurship as any attempt to create a new business enterprise or to expand the existing business by an individual, a team of individuals or an established business.

Czech legal system (1991) defines entrepreneurship as a systematic process executed by an entrepreneur. The entrepreneur uses his own name and exercises responsibility. The aim of this process is to be profitable.

### **3.1.2 Entrepreneur**

There are a few essential characteristics, which an entrepreneur as a person should have. The long-term aspect guarantees that the entrepreneur considers the long-term perspective connected with improving business activities in time. Spirit of an enterprise should be a fundamental characteristic of every entrepreneur. It is shaped by disposals and personal characteristics. Disposals cover abilities, knowledge and skills. Motivation plays a significant role in this case. Motivation integrates psychical and psychological activities towards determined aims. Veber and Sprová (2008) add that another notable characteristic is the number of risk aversion, endurance, responsibility or awareness.

An interesting summary of meanings of the term “an entrepreneur” is given by McClelland and Winter (1969). They defined an entrepreneur as a person motivated to high achievement, with optimism and responsibility who enjoys challenges and novelty and is a moderate risk-taker. All these entrepreneurs’ characteristics are beneficial for the market and the whole society. Anderson (1995) comes with a similar point of view. He in his book highlights that entrepreneurs are definitely vital for a healthy, vibrant and competitive economy. He states that most of the largest companies have their foundations in one or two individuals who had the determination to turn a vision into reality. There are numerous examples of these organizations such as Microsoft, Dell, Apple, etc.

According to Czech business law an entrepreneur is determined as:

- 1) A person registered to a commercial register
- 2) A self-employed person who makes this activity on the basis of a trade license
- 3) A self-employed person who makes this activity on the basis of a different licence than a trade licence according to a particular regulation
- 4) A person who practice agricultural production and who is registered to a documentation according to a particular regulation



### **3.1.3 Enterprise**

Czech authors Veber and Šrpová (2005) define an enterprise in their book as a specific array of tangible, personal and intangible components of entrepreneurship or also as an arranged array of resources, rights and another property values which function as practical business activities. In Bridge et al. (2003) book “Understanding enterprise, entrepreneurship and small business” is this term described as a group of qualities and connected competencies that enable individuals as entrepreneurs, organizations, communities and even societies and whole cultures to be flexible, creative and adaptable, and as contributors to rapid social and economic change. In this master thesis the term enterprise is used in the context of an enterprising unit such as a company or a small firm. The importance and the role of a small business in society and economy are more described in chapter 3.2.

## **3.2 Small business characteristics**

### **3.2.1 Definition of small business**

There is no uniformly acceptable definition of the term small business. Within the literature research it is possible to locate various definitions based on the number of employees, the company turnover, the quantity of value added or the corporation tax. There are definitions given by British Bankers' Association or European Commission. Table no. 1 shows apparently most used definition of a small business based on the number of employees. This distribution is determined for statistical purposes of The Department for Trade and Industry in UK.

Definition of small business based on number of employees	
Micro firm	Up to nine employees
Small firm	Up to 49 employees (includes micro)
Medium firm	50-249 employees
Large firm	250 employees and over

Table 1 - Definition of a small business based on the number of employees

*Source: BRIDGE, S., O'NEILL K., et al., 2003, p. 181.*

Characteristics of a small company could have also a qualitative character. There are numerous characteristics that are typical for small companies and underline their diverse approach to management, financial management, marketing and the whole business. A small company is typically short of cash at first. Capital acquisition is different in medium or large company and this has according to Burns (2001) major strategic implications. He highlights mainly the difference in marketing planning. Small companies are usually not able to arrange expensive advertising and promotions campaigns. It means they depend more on direct relationship with customers. A different capital structure also implicates a decision-making process, which is primarily short-term. This trend can be observed even more in the case of internet-based companies.

### **3.2.2 Stages of small business development**

The definition of small business development stages is similarly difficult task as the definition of a small business. There are more points of view in contemporary business literature. Bridge et. al. (2003) analyse in their book Churchill and Lewis model, which is according to them most used. They also study other theories of small business development stages to summarize them into the following list:

- Culture and awareness
- Business idea
- Intention
- Pre-start/preparation

- Start-up/inception
- Growth and expansion
- Static – survival, consolidation, comfort and maturity
- Decline
- Termination

What is important is that these authors take in account an early stage as awareness about business possibilities. In regards to the topic of this master thesis their apprehension of the term start-up is other substantive aspect. They interpret a start-up, which is discussed later in this thesis, as a significant stage of small business development. For better understanding there are all stages displayed in figure no. 1.

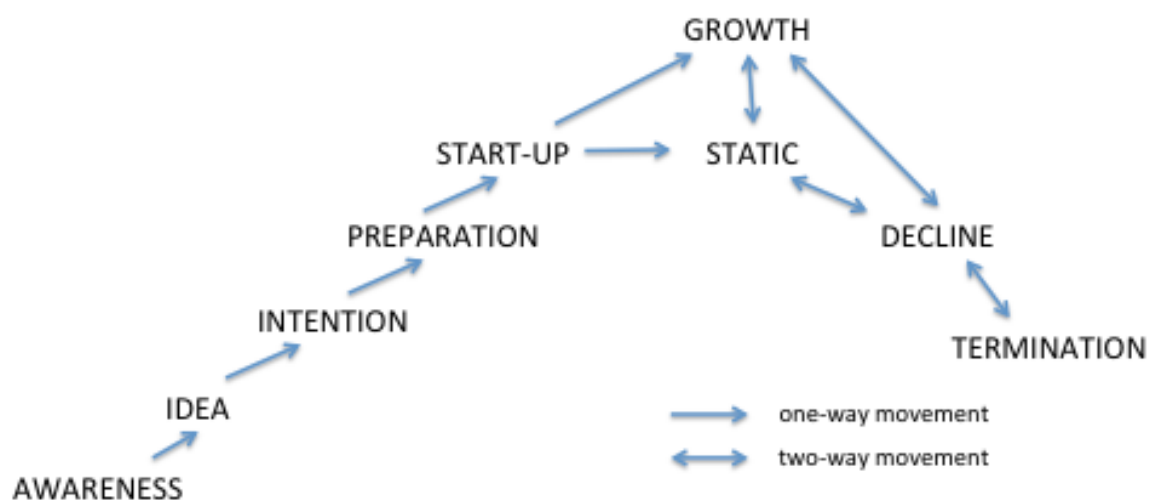


Figure 1 - Small business paths from the conception to death

Source: BRIDGE, S., O'NEILL K., et al., 2003, p. 190.

### **3.2.3 Importance of Small business in the global economy and society**

There are visible historical mentions of small business importance. Schumacher (1974) for example writes that growth of small firms is part of a social trend, which automatically implies more democratic and responsive society. Small businesses have besides ethical aspects also direct measurable impact on the economy. As it is showed by Birch (1979), 81.5 per cent of new jobs in the USA, between years 1969-1976, were created by small firms. It is important to mention that a small firm in his work means a company with less than 500 employees. Moved to European context, Burns (2003) points in his book that UK small firms generate 62 per cent of national employment points.

### **3.2.4 Lifestyle and Growth firms**

In the connection to a small business definition it might be useful to distinguish between two categories of small firms:

#### **Lifestyle firm**

Lifestyle firms are usually settled to employ an entrepreneur and to fulfil his point of interest. Life-style firms rarely experience a high level of profitability. Their lack of growth limits the amount of risk and potential returns connected with the business. Osnabrugge and Robinson say (2000) that entrepreneurs have to rely mostly on their own funds to start and operate their lifestyle business. For completeness it is important to say that some authors divide lifestyle firms further in two categories. Harper (2003) in his book describes difference between Level-one and Level-two lifestyle firms. Level-two firms are according to him fairly successful because the business opportunity prompted the firm to grow to a higher, unexpected level.

## **Growth firm**

Another, more interesting, group of companies is presented as growth firms. Growth firms are opposite the first group settled with the intention to growth. They can be described as innovative, willing to take risks, and also able to change. Burns (2001) in his book argues that rapid growth of these firms is risky and creates major problems that must be addressed within very short time frames.

## **3.3 Start-up**

### **3.3.1 What is start-up?**

There are numerous explanations of the word start-up mainly depending on the context. Internet business dictionary (2008) defines this term as:

*Early stage in the life cycle of an enterprise where the entrepreneur moves from the idea stage to securing financing, laying down the basis structure of the business, and initiating operations or trading.*

Start-up is understood in this master thesis as an early stage of small business development. Stokes and Wilson (2000) define a business start-up in a similar way as a new enterprise, starting up and trading in its chosen field – a green field, in which the seeds of ideas can grow, develop and be successful. It is notable to highlight the term idea in the context of last definition. Many authors connect a start-up with terms idea, innovation and invention. According to this expanded opinion emerging firm without any innovation are not called start-ups.

### **3.3.2 Parts of successful start-up**

For better understanding of necessary parts to start a business the author used the diagram from Burns (2003) book called Entrepreneurship and Small Business – figure no. 2.

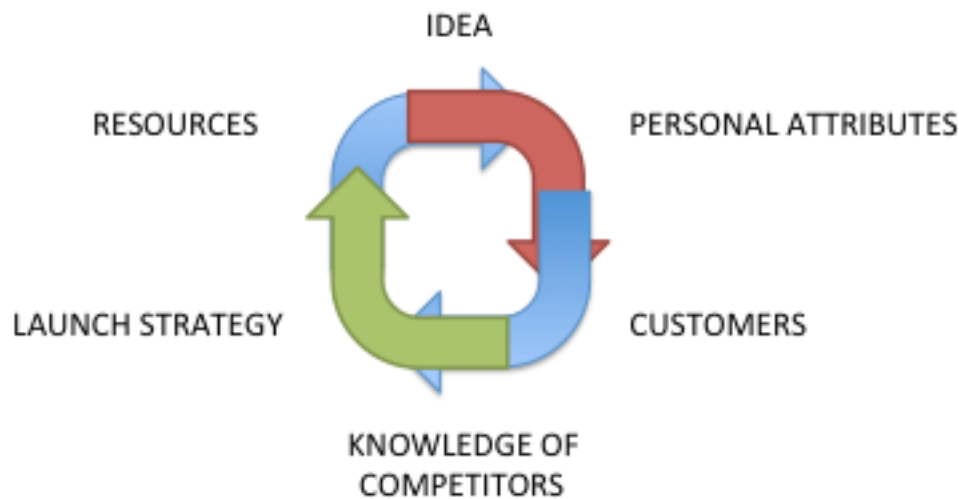


Figure 2 - What you need to start your own business

*Source: BURNS, P., 2001, p. 73*

He names an idea, personal attributes, customers, the knowledge of competitors and a launch strategy as crucial points of small business establishing. Particular terms are highly connected with separate parts of developed business plan and therefore it is necessary to describe them rigorously.

### **Idea and innovation**

Starting a business is a highly discussed topic. Motivations of people to base their business are diverse. Most people usually decide to start a business considering their professional skills, experience or qualifications that they have already gained from a previous carrier life. There are also motivations based on dissatisfaction with current work. Others start a business after some kind of business competition or with business incubator support. Other people are trying to spot the gaps in the market. A business idea is in many cases connected with an important term – innovation.

Bolton and Thompson (2000) in their book point out three diverse approaches to innovation. For better understanding of innovation types this division is presented:

1. Have a problem and seek a solution. This is probably the most rational type of innovation. The solution should be sought solely after a clear problem definition.
2. Have a solution and seek a problem. We are often witnesses of a high-tech product with an immersion design, with no demand for. A quotation given by Peter Drucker in chapter 3.7.2 demonstrates this sort of problem.
3. Identify a need and develop a solution. Third type of innovation is according to Bolton and Thompson most advantageous. They mention an example with James Dysons who developed a dual cyclone cleaner on account of his frustration with the inadequate features of an existing vacuum cleaner.

### **Personal attributes**

Being an entrepreneur is about more than just starting a business or two, it is about having an attitude and a drive to succeed in business. All successful entrepreneurs have a similar way of thinking and possess several key personal qualities that make them so successful in business. The personal qualities exerted by a small business owner overcoming deficiencies over and over again are vital and present in many entrepreneurs much more than specific technical knowledge. Fayolle and Klandt (2000) summarize psychological literature and the original Lessem (1986) work to set of attributes, which are risk-taking ability, a need for achievement, a locus of control, desire for autonomy, deviancy, creativity and opportunism and intuition. The smaller the business is the more personal attributes are significant.

### **Customers**

It has been already mentioned in this master thesis that the entrepreneur should focus on the clear problem definition rather than on the perfect solution. If there is no problem, there is nothing to solve and therefore there are no customers. Before manufacturing or even market entry the entrepreneur should really quantify the demand on the market for the particular product. There are analytical tools described in next parts of this paper, which allow avoiding

affection by an effect called *mousetrap myopia*. Venture capitalist Camp (2002) says that mousetrap myopia occurs when a small business becomes irrationally attached to its sophisticated or in any other way elegant technologies and fails to focus solely on the needs of potential customers. Mousetrap myopia affects mainly inventors who are specially focused on the product rather than on the role of the product on the market. Burns (2001) lists in his book several questions, which can effectively help to avoid mousetrap myopia effect mentioned before. For the purpose of this master thesis the most important questions are following:

- Who is going to buy the product or service? List names and describe the customers.
- Why will they buy it?
- What needs do they want the product or service to meet?
- What are the channels of distribution?
- How big is the market?
- Does it have any boundaries?
- Are there any competitors? If so, why should the customers buy certain product or service rather than that of the competitor?
- Is the product or service unique in any way?
- Is the market highly concentrated or fragmented?

Some of these questions overlap the topic of demand existence on the market. Burns asks for competitors to reveal potential competitive advantages of the product. For rigorous competitor assessment competitor analysis as the part of a deep market research is used.

### **Knowledge of competitors**

There are numerous evidences of knowledge of competitors' importance. Storey et al. (1987) for instance point that low growth firms have the least understanding of their competitors. Gilligan and Wilson describe in their book that sufficient knowledge of competitors can help to design and optimize own marketing strategies. Deep understanding of intended product's substitutes and complements, competitors' pricing models and marketing strategies allows



creating of a clear picture about our future position on the particular market. Entering the market dominated by big companies could be truly complicated and sometimes impossible due to their established market positions and the resources to fight of new entrants. For a competitor analysis there are analytical tools employed in this master thesis such as Michael Porter's model of Five Forces. This model and its role within the project is described in chapter 3.4.2.

### **Launch strategy and customer marketing**

For a new product or service a market entry strategy should be developed. One of cardinal elements of a market entry and any other marketing strategy is understanding the difference between features and benefits of the product. Many entrepreneurs define their products in physical terms and metrics, but a customer is in fact buying benefits. Burns (2001) discusses in his book that it is more rational to start with the benefits of products that customers are looking for and after that construct the features that provide that benefits.

## **3.4 Business environment**

### **3.4.1 External environment – PEST**

In analyzing the macro-environment, it is important to identify the factors that might in turn affect a number of vital variables that are likely to influence organization's supply and demand levels and its costs (Johnson and Scholes, 1993). Several different tools for analyzing the environment have been developed but in author's opinion the most relevant, which deals with an industry analysis, is the PEST analysis. It is a framework that categorizes environmental influences as political, economic, social and technological aspects (Kotler, 1999). Bensoussan and Fleisher (2009) describe the PEST analysis as a model focusing on political, economic, social and technological aspects of the environment. These aspects according to them can affect the competitiveness of companies or the whole industries in particular country. Ward and Daniel (2006) in their book highlight that events in

one country usually influence foreign markets and industries as the consequence of an increasing connection between the societies and economies.

### **3.4.2 Porter's 5 forces**

Michael Porter in his book (1980) introduced the “five forces” framework for the industry analysis and business strategy development. Porter's framework focuses on five forces that shape a competition within an industry: a threat of entry by potential competitors, a threat of substitutes, bargaining power of suppliers, bargaining power of buyers and finally a degree of rivalry among established companies. Karagiannopoulos *et al.* (2005) investigate the application of Porter's model in the internet era. Findings of their work imply that the Porter's five forces could be enriched with the intensity of innovations in particular sector. In retail companies this innovation's intensity can be represented by innovation of distribution and communication channels or other technologies, which are not connected with products.

### **3.4.3 SWOT analysis**

According to Westwood (2006) SWOT analysis is a necessary tool to understand the marketplace in which the company operates as it stresses its strengths and weaknesses and analyzes external factors such as opportunities and threats. SWOT consists of 4 significant points of view on the company and its environment. It describes strengths, weaknesses, opportunities and threats. Through analysing these parts SWOT is used to evaluate the fit between company's internal resources and capabilities (strengths and weaknesses) and external possibilities (opportunities and threats). In other words, SWOT analysis can identify the best way how a company can use its strengths to utilize opportunities and to defend both its strengths and weaknesses against external threats. SWOT is also usual method for analyzing the company situation and therefore it is often thought as of “a situation analysis”. The system of this analysis is demonstrated by picture no.1. (BENSOUSSAN, 2008)

# SWOT ANALYSIS



Figure 3 - SWOT Analysis

Source: *BusinessTeacher.org.uk*. Available via:

(<http://www.businessteacher.org.uk/business-operations/swot-analysis/>)

## 3.5 Generic marketing strategies

Michael Porter (1985) in his ground-breaking book, *Competitive advantage: creating and sustaining superior performance*, defines three main generic strategies that allow achieving above-average level in an industry. He argues that a firm that can position itself well may earn high rates even though the industry structure is unfavourable. Generic strategies according to him consist of cost leadership, differentiation and focus. Each of the generic strategies uses a different method to obtain the competitive advantage.

### Focus

A company which decides for a focus strategy selects one or more market segments and tailor its strategy to serve them special highly adapted products or services. Porter further divides the focus strategy into a cost focus and a differentiation focus. Whereas in the cost

focus strategy the competitive advantage is based on a cost advantage within the segment, differentiation focus firms seek differentiation in a segment.

### **Differentiation**

Company bases its uniqueness on one or more dimensions which are beneficial for a particular market segment of customers. The unique features or benefits are supposed to provide a superior value for the customer if this strategy is to be successful. This uniqueness of the product may allow the company to charge a premium price for it.

### **Cost leadership**

The aim of the cost leadership strategy is to be the low cost producer in the industry for a certain level of quality. The company tries to take the advantage of economies of scale by producing a high volume of standardized products. In the case of this strategy it is assumed there will be continuous improvements in the cost reduction in all aspects of the business.

## **3.6 Business plan for small companies**

A business plan is an important document for a company, which fulfills various aims. It provides the possibility to define the aims of the company and the tools for their achievement. Koráb and Mihalisko (2005) describe a business plan as a written document containing all significant external and internal factors, which are connected with creating and starting the company. According to them a business plan helps to lower the risk consequent upon entrepreneurship. Longenecker et. al. (2005) for the comparison see a business plan as a document that outlines the basic idea of particular business and describes related startup consideration. Similarly as other authors they highlight that a business plan should answer three crucial questions: where we are now, where we want to go and how we intend to get there.

### **3.6.1 Purpose of business planning**

Linda Pinson in his book (2008) points three main purposes of business plan:

1. To serve as a guide for business

The first and most significant reason for business plan development is to have some guide for all stages of business. It helps not only to define goals but also to compare if they are achieved in determined period. Koráb and Mihalisko (2005) suggest that this guide answer three basic questions: What is the current situation, where do we want to be and what is the best method to get there. Pinson supports this idea. She states that a business plan provides detailed information of all aspects of company's past and current operations, as well as its projections for the next few years.

2. As documentation for financing

During the process of seeking for finance, a business plan provides information how the investment or loan will be utilized and how it will influence a company profit in the future. Investors want to know how their investment will influence the net worth of the company and how it will help to achieve company's aims in timely basis.

3. To operate on foreign markets

For businesses operating internationally business plans play important role. According to Pinson, a business plan helps demonstrate ways in which business can compete with global player in the economy.

### **3.6.2 Who will use a business plan?**

A business plan provides essential information about company goals and vision to management and all employees of a company. Internal using of this document is evident. Besides that it can be requested by external subjects. In a company it plays the role of planning tool, framework for decision-making and the instrument for comparison. External subjects can evaluate the readiness for investment activities through a business plan. A business plan is the primary tool used by financiers to evaluate the potential of a business. Significant proof of business planning importance was brought by Kinsella et al. (1993).

They conducted in their study that 93 per cent of fast growth firms had written their business plans, compared to 70 per cent of matched firms. There are fundamental evidences of positive correlation between success and planning activities.

More reasons for business plan development can be identified. It helps in process of optimization of expenses structure and helps to get better terms with suppliers or leasing companies. If the business runs well, the business plan identifies that higher sales needs higher working capital. Business plans can also help within the process of looking for key employees. It can assure them, that the company is well managed.

Besides that a business plan usually answers three important questions: How much do I really need for the start of this company? What is the equity of company? What is all the variants of future development?

### **3.6.3 Various kinds of business plans**

For better understanding it is important to divide business plans to 4 types. Here is the categorization made by Czechinvest (2005):

- Elevator pitch
- Executive summary
- Shortened business plan
- Full version of a business plan

#### **Elevator pitch**

Elevator pitch is special type of a business plan native to Silicon Valley. It is usually not in a written form. The Aim of elevator pitch is to explain to a potential investor in one minute the core of the new business. Generally it describes competitive advantages of entrepreneur's vision.

### **Executive summary**

An Executive summary provides a written form of a business plan. The recommended length of the text is 2 pages. A business plan in this form should highlight mainly this information:

- What type of investment is requested
- Who support described business? Management team
- A product description
- A market segment description. Do we have any competitors?
- The concrete offer with contact information

### **Shortened business plan**

Shortened business plan extends the executive summary. It provides more comprehensive perspective on the idea, investment, management team, product etc. It is recommended to give a full version of the business plan only to hands of seriously interested persons. For any other cases it is recommended to use a shortened version of the business plan.

### **Full version of a business plan**

Finally, a full version of a business plan points all available information about business. Generally it answers questions:

- What do we do?
- What do we need?
- What do we offer?

A business plan in this version offers consists of an executive summary, a detailed description of a project/product, an analysis of external and micro environment, a competitor analysis, a marketing plan, a financial plan, a risk assessment and a final summary. (Veber and Srpová, 2008)

## **3.7 Business plan development**

In this chapter separate parts of a business plan and their requirements are discussed. There is employed a mix of academic and business literature for determining an ideal business plan structure in the terms of an internet based small company. The literature research executed in this chapter is used for a real business plan development in chapter 5.

### **3.7.1 Executive summary**

In chapter 3.6.3 there is an executive summary introduced as a special kind of a business plan. Besides that it fulfils the role of the introduction in the full version of a business plan. An executive summary is the first and the most readable part of a business plan and therefore it shouldn't be ignored. For a typical start-up, which does not have any history, it should fit in one page A4. It is necessary to distinguish the important aims from the less important ones, because only the significant ones should be included in this part. Abrams and Kleiner (2003) mark an executive summary as the most important part of a business plan. They support a general opinion that it must motivate the reader to consider the business plan as a whole. A dynamic, logical writing style can make the plan be considered instead of discarded.

### **3.7.2 Description of business idea**

Peter F. Drucker (1986) offers a good introduction about how the description of business ideas should look like:

“Because the problems which an entrepreneur faces are ill structured, entrepreneurship is not primarily about solving a problem, but rather about making an attempt to explain why it is a problem in the first place.”

This introductory part of a business plan should clearly describe the whole business issue. Beside other important aspects of potential future business it is important to highlight the



principle of making money. If there are no buyers and possible revenues, there is no business. Equally important is a product or service definition and especially its benefits for a customer. A rigorous market analysis is included in other part of a business plan. However, the description of business idea should indicate customers' hunger for presented products. It is also suitable to add a brief description of production technology (needed materials, type of labour) and some information about a patent protection. In sophisticated areas such as technological products or software it is necessary to explain how this main part of a business is delivered. Representative pictures or workflow schemes help to retain the reader's attention.

### **3.7.3 Organizational structure or management team**

Although the structure of a business plan is not strictly defined, a management team introduction is reasonably option for the following chapter. It is not surprising that qualities of people determine the success of a business. A potential investor invests his money primarily into the person of an entrepreneur or into a management team and their experience, skills and personalities. Abrams and Kleiner (2003) say that investors are likely to review the management introduction before they read many other sections. They read this section carefully and study the qualification of the people behind a business. Lognecker et al. (2005) also support the importance of people behind a business. They suggest that quality of a management team is paramount and even more important than the nature of a product or service. Depending on how large the particular business is, this section can span one line or a couple of pages. In the case of start-up without huge management teams and professional support it is important to set out the skills and track record of the main people. Besides that it is suitable to point out their qualifications, experience or outstanding skills. If there are such qualities, it will add a competitive edge to the image of that start-up.

### **3.7.4 Marketing plan**

A marketing plan sets out clear objectives and lists the actions a management team will take to achieve them. Perhaps most importantly, it looks at how it is ensured that a plan becomes

reality. The Length of this part is highly determined by type of a business. In the case of start-up it is important to highlight mainly distribution channels and how the customers will learn about a new product. A marketing plan in the case of middle or big and already settled company is very detailed and time consuming portion of a business plan that explains specific business' sales strategies, pricing, promotions and benefits. In connection with other parts it determines the company's unique selling proposition, or USP. Stone (2001) describes that USP identifies the differentiation from the competitors and lists the advantages which can be used in a company marketing. Chapman (2006) adds that USP means sales proposition that the competition cannot or does not currently offer. To observe USP of the particular company it is necessary to answer the following questions:

- What purpose does the company and its products/services serve? What need is it fulfilling?
- What makes the company and its product/services unique or different from another business?
- How does the consumer benefit from this uniqueness?

### **3.7.5 Financial plan**

One of the ending parts of a business plan is a financial plan section. The finance part determines whether the business idea is viable or not, and is the key component in determining whether the business plan will attract any investment or not. A financial plan mainly provides facts and figures showing how fast the company is expected to grow and how that growth will be funded. Nissenbaum et al. (2004) in their book Ernst & Young's personal financial planning guide see the aim of the financial part in a formulation of a credible, comprehensive set of projections reflecting the company's anticipated financial performance. They also suggest that if these projections are carefully prepared, they become one of the most critical metric by which the business' attractiveness is measured.

Basically a financial plan section of a business plan in the case of start-up consists of three financial statements, an income statement, a cash flow projection and a balance sheet. It is followed by a brief explanation/analysis of these three statements. In the case of already

emerged medium and big-sized companies the financial plan shows investments, loans, accounts receivables and payables and it is one of the most important parts of a business plan.

### **3.7.6 Risk assessment**

A risk assessment is by some authors considered as one of the most important activities undertaken within the business planning. At its most basic, the process encourages participants to become aware of what might happen, to observe potential complications and to think about their solutions. At its most sophisticated, a risk analysis produces a comprehensive set of scenarios, probability data, and provides the basic data for developing a business strategy. A risk assessment has to concentrate on the local identifiable issues relating to the business. Before exploring other concerns, it is recommended to concentrate on the most realistic risks and threats that currently exist in a company context. As in the case of other parts of a business plan, similarly a risk assessment diversifies for a start-up and already emerged bigger company. In the context of a start-up it is usually sufficient to base the risk-assessment process on the High/Medium/Low classification and to focus on solutions of these scenarios.

## **4 Analytical part**

This chapter employs tools such as Porter's five forces, PEST or SWOT analysis to describe business capabilities and business environment. Analysis' summaries are used in the final business plan for strategy development and prediction of future development.

### **4.1 Facts about the company**

<b>Legal form:</b>	<b>Sole trader</b>
<b>Registered office:</b>	Kramolna 207 Náchod
<b>Registration number:</b>	87500990
<b>Web address:</b>	<a href="http://www.onlinelektor.cz">www.onlinelektor.cz</a>
<b>Start of business:</b>	4.1.2011

### **4.2 History and current state of the company**

The idea of virtual e-learning platform has been developing since September 2009, when the author of this thesis together with Peter Marcely attended a Czech business plan competition called "Startup roku 2009". On this contest they got between the final top 10 Czech and Slovak projects with a temporary name of the project – EKurzy.net. The project was introduced as a virtual Internet language tuition marketplace. The main idea was to provide not only a marketplace function but also provide advanced technology for teaching through the Internet. This means a real-time video, audio and text transfer technology built in a web browser. Many competitors in the certain time were working as a marketplace platform, where the lecture was outsourced by third party services such as Skype. The main competitive advantage defined in September 2009 was user-friendly portal, which ensures crossing of demand and supply, provides unique technologies for teaching and ensures the payment settlement between both sides of the business.

Since the first days the idea has been developed in cooperation with partners – language schools. The main contribution to shaping the idea had the language school “Kurzy Jílek”. The cooperation with the language school is really important value for the project as the main goal is to provide a service, which will solve the real life issues. The author of this work with Peter Marcely attended on May 2010 another business plan competition held by Business Incubator Olomouc (Vědecko technický park a Podnikatelský incubator Univerzity Palackého v Olomouci). Later then they succeeded among other 41 Czech and Slovak projects and won this competition called Podnikavá hlava 2010.<sup>1</sup> The victory in the contest brings important contacts, money for covering fundamental expenses and some popularity. Work on the project started one month later with a development analysis.

In the development analysis there were highlighted technologies and techniques, which are necessary for the project. Development of minimal product, which would meet the essential functionality, was estimated for one year full time job. There were couple of reasons why it was necessary to suspend the project. The most significant reason was that the author of this thesis and Peter Marcely was full time students and they were not able to invest such amount of time to the project. Due to many reasons defined in other parts of this work it was decided to change the strategy and enter the market with another product. Another product was supposed to provide essential brand recognition of OnlineLektor and to create the relationship with the key partners – language schools.

### **Current State of the company**

The company on its webpages provides a language course aggregator. The main idea was to develop a really easy service, where the customer can find and order a language course according to his specific parameters. Customers can easily filter the language courses by language, city, level of language, length of the course, days of the week and even by concrete hours. This is only one unique competitive advantage of the current product of the company. There is no other player on the Czech market, which can offer this level of user experience, which provide OnlineLektor.

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<sup>1</sup> <http://www.vtpup.cz/o-nas/soutez-podnikava-hlava/archiv-rocniku-2010/vysledky-souteze-podnikava-hlava-2010.html>

The current product of the company is built mainly to achieve three goals: to create a fundamental brand experience of OnlineLektor, to allow creating relationship with language schools and to create at least minimal profit, which would cover the development expenses. The main threat was potentially not sufficient amount of language schools and language courses. There was obvious apprehension that the language schools will not want to join project without any history. The official page of the company was launched in August 2010, together with the official Facebook and Twitter account. 43 language schools have joined OnlineLektor since august 2011. Partners of OnlineLektor are selling hundreds of language courses through OnlineLektor, which now works as a virtual marketplace with the normal language courses. In addition OnlineLektor announced that it is going to provide an advanced technology for its partners, which will allow selling language courses directly from the biggest social network – Facebook.com. Peter Marcely (2009), developer of OnlineLektor and its Facebook extension, describes utilizing of Facebook API for similar purposes in his bachelor thesis. All mentioned activities should just provide a starting point for the main product, which is analysed in this business plan.

### **4.3 Business environment of language teaching industry in Czech republic**

## **4.4 Analysis of external environment**

### **4.4.1 PEST Analysis**

As it is mentioned in the literature review, for an analysis of the macro-environment the author used a model, which deals with industry analysis - the PEST analysis. The first field is political. Political force can be divided into general political force, which influences the business environment and the entrepreneurs in general and political force, which influences mainly the language teaching industry. General political and legal force can be represented for instance by slow performance of the Czech courts – as it was being solving in the

conference E-Justice.cz (Kolaja, 2004). The language teaching industry is largely shaped by the quality of education system in general. It means that restrictions and changes from the Czech Ministry of education play a significant role. The ministry of education determines the quality of foreign languages' education system and some changes are expected. A Czech newspaper (Novinky.cz, 2011) reminds really low level of English among Czech students. A recent study (The Language Training Market in Czech Republic, 2007) says that despite the emphasis on learning English, English language skills among Czechs are less developed in comparison with other EU countries. As what is mentioned in this diploma thesis, fast speed Internet connection availability and other technological aspects can influence the success of the project more than macroeconomic metrics. Beside traditional metrics such as GDP, an employment rate or an interest rate, the company should be focused on language skill importance or an average price per language lecture. The Czech economy is very open and export-oriented with low labour costs relatively to other Western countries. According to data of Czech statistical office, the Czech GDP grew by 2.3% in 2010, the inflation rate was 1.5% and the unemployment rate was estimated as 7,3%. Economic trends can have diverse impacts on this industry. Growing unemployment rate can for instance motivate people to study languages and improve their chances on the labour market. The project, which is proposed in this diploma thesis, is not built on import or export and therefore it is not too much influenced by metrics such as an interest rate. The main group of language students is between 26 and 40 years of age as it is written in the recent study (The Language Training Market In Czech Republic, 2007). According to GFK Czech (2007) this target group covers 43% of total number of people studying languages. The second largest group of language students is in the age between 19 and 25 years (20% of the total), followed by the 15-18 age group (15% of the total) and seniors (in this study aged 50 and older) with 7% of the total. Data are presented in the chart, which is included in appendix no. 1. The study further determines educational background of language students. According to GFK Czech (2007), 45% of Czech language students are university or college graduates and 42% have completed high school. There is also 7% of students who have unfinished a primary school. The graph of educational background is included in appendix no. 2. Technological aspects can influence this industry in general indirectly and less significantly. Normal language courses arranged in language schools' buildings are not influenced by advances in technologies. On the other hand, technologies and Internet are really important for the online teaching industry and the

project OnlineLektor. The aspects such as computer literacy, fast speed Internet connection availability are unexceptionable requirements for the project success. According to data from 2010 (Pingdom, 2010) the Czech Republic is 7<sup>th</sup> most developed country in the matter of average Internet connection speed – 5,32 Mbit/s. This number indicates high ratio of DSL lines in the Czech Republic, which significantly facilitates an expansion of Internet projects.

#### **4.4.2 SWOT Analysis of the industry**

When the strengths, weaknesses, opportunities and threats are analysed, it is necessary to include a general language teaching industry and at the same time a potential online language teaching industry. The main focus of this SWOT analysis is put on the traditional language teaching industry, but it is obvious, that the Internet brings new opportunities and threats for language schools, private lecturers and students. The Strengths are mainly based on the need of language schools in this time. Learning of foreign languages, especially English, is getting more and more important for Czech and Slovak people. According to contemporary development, European Union integration and increasing importance of the European labour market, it is obvious that the demand for language lectures will increase. The fact that people are used to learn languages from computer software on CDs or the Internet services can be perceived as a strength side of the language teaching through the Internet. The most significant weakness is the fact, that online language learning is not suitable for old people. It requires a certain level of computer literacy, which can be problematic in the segment in the age 50+. The general weakness and characteristic of the language teaching industry is relatively low price for a lecture and therefore a low space for margins. This fact limits a potential mediator in the particular industry and at the same time limits a potential online teaching platform. There are diverse perspectives of language teaching industry opportunities. There is a general opportunity built on the contemporary level of language skills in the country. The study prepared by GFK Czech (2007) points out that in this year only 60% of Czech and 69% of Slovak citizens can speak a second language. By contrast, for example in Latvia there are 91% of people who can speak a second language. This fact supports the activities of language schools and mentioned trend in the demand for language



lectures. There are some opportunities in the segment of teaching through the Internet. People are more and more in a rush, especially in the cities and significant portion of them do not have time to attend language courses regularly. Transport from the one side of the city to the other is time consuming and online lecture can be a suitable alternative. A long term increasing speed and a quality of the Internet connection and computers can be also presented as an opportunity in this industry. Finally, threats are also divided into threats for the industry as a whole, and for the emerging online languages lectures industry. The Czech language market is highly fragmented, with hundreds of language schools competing for a market share. This sentence can be supported by GFK Czech study (2007) or by data from the Czech biggest Internet database of Language schools.<sup>2</sup> Excessive number of language schools might bring consolidation of the market. It means a threat for some language schools and an opportunity for new and innovative concepts of language lectures such as online lectures. Popularity of this new emerging industry is really difficult to estimate at this moment and therefore there is a threat, that enlargement of this new technologies and completely new ways how to learn language take more time than what is assumed.

## **4.5 Analysis of micro environment**

### **4.5.1 Customers - Students**

There are hundreds of language schools in really competitive language market in the Czech Republic according to GFK Czech study (2007). The Czech biggest catalogue – [www.jazykovky.cz](http://www.jazykovky.cz) names more than 500 Czech language schools, with 200 of them located in the capital city – Prague. These language schools organize significant number of language courses every semester. There are also other ways how people learn English with the lecturer:

- Optional lessons in all segments of educational system
- Post-secondary studies

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<sup>2</sup> [www.jazykovky.cz](http://www.jazykovky.cz)

- Business and internal courses
- Private lecturers and native speakers' services
- Tutoring between students

There are also segments of potential customers who would like to visit a language course but there is some sort of complication:

- There might be long distance to school
- Some people do not want to be a part of a bigger group of students
- Some people have to spend majority of time at home

To evaluate the potential of the new market with online lectures is difficult. It is not possible to find the exact figures to assume the market potential or the demand for the new services. For better understanding of customer needs the primary research made by questionnaires has been employed.

### **The primary research**

For the purpose of this diploma thesis, there was conducted a research of Czech people. The main aim of this questionnaire survey was to determine the motives for language learning and the demand for the real online lectures. 601 survey participants were chosen randomly. Table no. 2 shows the age distribution of respondents. A majority of them (more than 95%) are in the segment of 13-30 years of age. Table no. 3 adds the information about the occupation of respondents. More than 86% are students. The data has been collected in the period of February and March 2010.

Age distribution of respondents		
Age	Quantity	Percentage
13-20	212	35,27 %
21-30	361	60,07 %
31-40	15	2,50 %
41-50	8	1,33 %
51-65	5	0,83 %

Table 2 - Age distribution of respondents

Occupation of respondents		
Occupation	Quantity	Percentage
Student	519	86,36 %
Employee	69	11,48 %
Looking for a job	13	2,16 %

Table 3 - Occupation of respondents

**Are you interested in further improving your foreign language skill?**

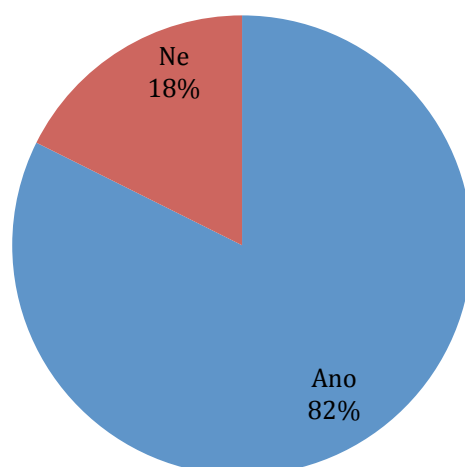


Chart 1 - Are you interested in improving your language skills?

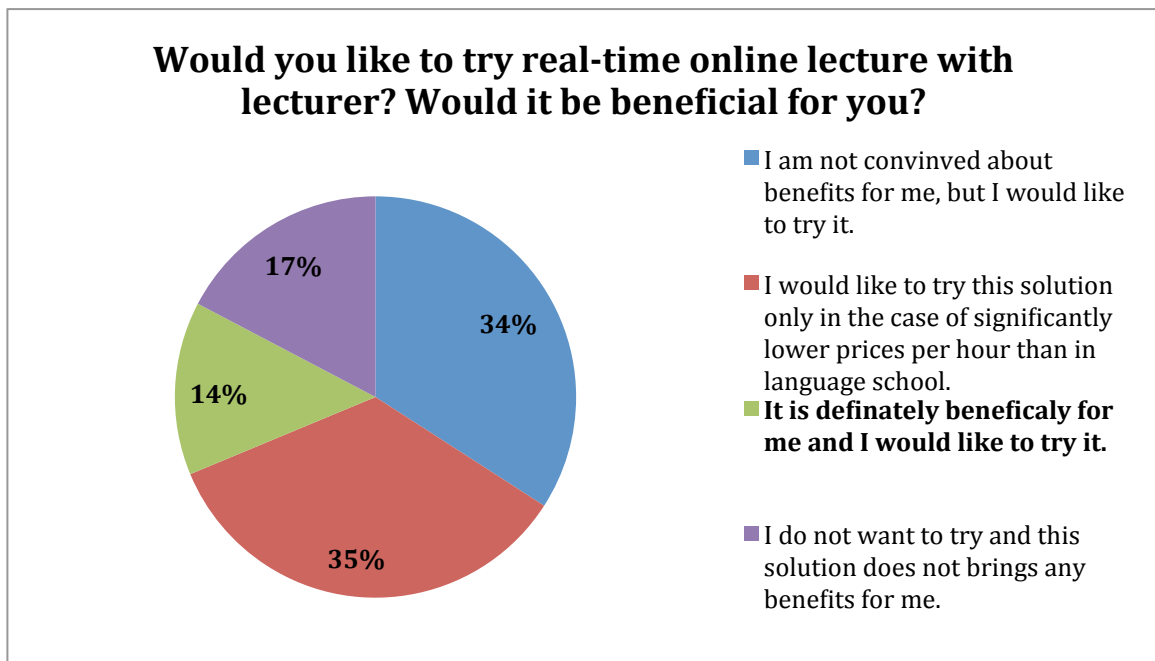


Chart 2 - Would you like to try online lectures?

Although the respondents are mainly students younger than 30, results can help to understand a potential demand for a new service. 82% of respondents are interested in further improving their foreign language skills and consider these skills important for their future carrier. This results support the GFK Czech study (2007), which highlights that languages skills are important for Czech students. Second most important question in the questionnaire asks respondents if they would like to try some kind of real-time foreign language online lectures and if this kind of service would be beneficial for them. 83% of respondents would like at least to try online lectures, while 17% perceive online lectures definitely beneficial for them. 17% of respondents are not interested in this service and they would not like to try it. The results support the author's assumption about the interest in improving language skills and bring optimism into the perspective about the future of the new service.

### **The secondary research – data from public sources**

There are some public data and signals, which can support online learning and online lectures as a future trend. At this age everything moves from the hard drives to the Internet. Emails are seldom saved on computers hard drives, and same destiny met photos, calendars or timetables of public transport. OnlineLektor is built on the assumption that also part of

teaching activities will move on the Internet. Many Czech language schools and private lecturers offer online lectures through Skype nowadays. The Disadvantages of Skype lectures are obvious as this service is not designed primarily for teaching, but for common communication. The possibility of Skype and other alternative ways is analysed deeper in this diploma thesis. There are also public anonymous questionnaires on educational Internet pages which investigate visitors' motives to study through the Internet. A survey on the Czech site [portaljazyku.cz](http://portaljazyku.cz) investigated, which type of the lecture is most favourite for students. This question have been answered by 757 respondents, whereas 38 % of them choosed e-learning or online lecture. 28% respondents prefer the possibility to study abroad and 14 % use services of a private lecturer. Full results are presented on chart no. 3.

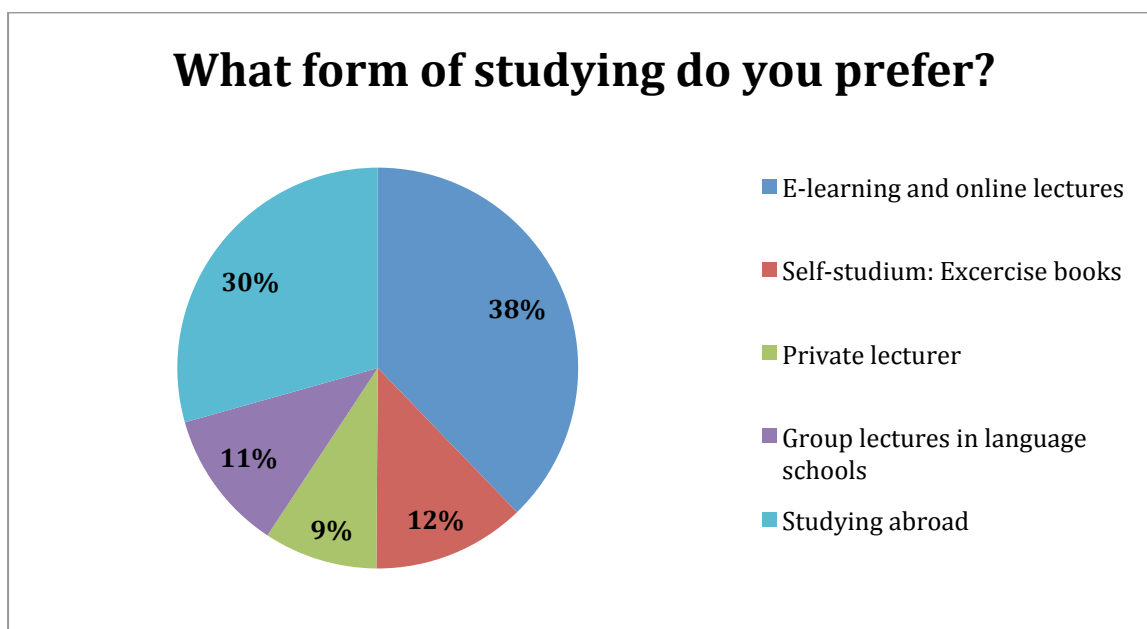


Chart 3 - What form of studying do you prefer?

*Source: Portaljazyku.cz. Number of respondents: 757. Available via: (<http://www.portaljazyku.cz/app/poll>)*

Other survey has been arranged on the site [anglictina-online.info](http://anglictina-online.info). The obvious disadvantage of these single purpose questionnaires is, that the age distribution and other details about respondents are known. That is the reason why it is necessary to take these results solely as the additional information. 378 respondents answered in this particular survey the question, whether they learn English through the Internet. The details are shown in the chart no. 4.

under this paragraph. 68% respondents are use or are just beginning with this new method, whereas 32% are not interested. For 32% of respondents e-learning and online lectures are not beneficial mainly because they have still lectures in their schools, as it is explained on the internet page.

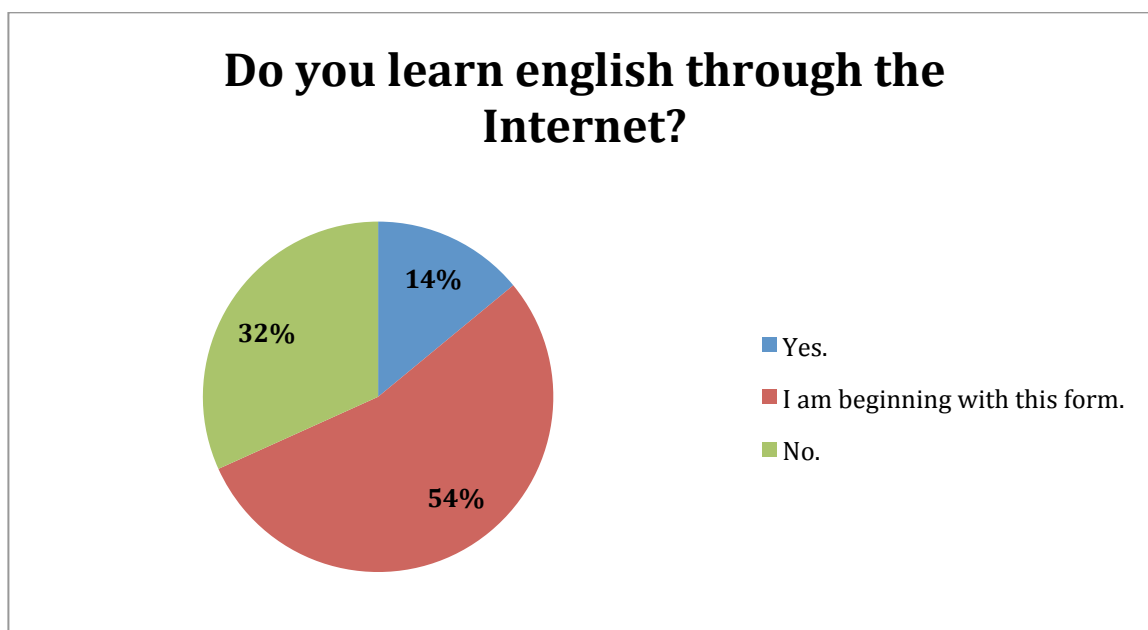


Chart 4 - Do you learn English through the Internet?

*Source: Angličtina-online.Info. Number of respondents: 152. Available via (<http://www.anglictina-online.info/component/poll/1-ucite-se-anglicky-pres-internet.html>)*

#### **4.5.2 Customers – Private lecturers**

Private lecturers are another important part of OnlineLektor's customers. Private lecturer can start his own profile on OnlineLektor webpage for free and then start his online teaching carrier. Private lecturers are motivated by financial assets and professional experience that they can potentially get. To support lecturer's motivation and potential interest in the new service, more than 100 of private lecturers have been addressed. More than 90 % would welcome the opportunity teach online, get new students and possibility to earn some money. OnlineLektor got more than 50 e-mail addresses of private lecturers who would like to be

informed about launching this platform. More than 66% of lecturers would like to even participate on design and development of service and OnlineLektor use actively their ideas and proposals.

### **4.5.3 Competitors analysis**

There are various ways how to improve language skills. There are for example courses at schools, company courses, internships, reading foreign literature or news, self-study on free websites such as [www.helpforenglish.cz](http://www.helpforenglish.cz), e-learning courses or specialized application on CD/DVD.

One of the most significant customer segment of the project OnlineLektor is a group of people, who have already visited some language course held by language school or people who are focused to self-learning through the applications on the Internet. In regards to the project OnlineLektor, Internet services providing a connection between a student and a lecturer are chosen as the subject of analysis. There are two main groups of potential complementary services on the Internet:

#### **a) Language schools and private lecturers teaching through Skype**

Private lecturers and language schools are trying to find a way, how to use modern Internet technologies to expand they customers network. It is not difficult to find within a few minutes dozens of companies and individual lecturers, who offer teaching through a third party software – mostly Skype. There is a significant trend in these activities and OnlineLektor is rather than trying to compete these players trying to deliver a better solution for them. It is important to determine the main disadvantages of teaching through Skype or other software, which is not primarily designed for teaching purposes:

- Only transfer of voice and video is not sufficient tool for teaching
- There is not guaranteed financial compensation between the lecturer and student

- Customers (students) are usually not able to verify the quality of teacher
- It is difficult for the lecturer to find students. (It is necessary to have internet webpage or other form of advertising)
- Students have to install additional software to their computers.


#### **b) People to People learning solutions**


There is a group of Internet services called People to People learning solutions. The most important services include EduFire, Grockit or English Café. There is no similar service working in Czech or Slovak market at this moment. Project OnlineLektor is partly built on some characteristics of People to pPople learning solutions. These systems usually offer to private lecturers the possibility of creation and managing lectures in specific subjects. Lecturers can choose the level of the lecture and the price they request. Students, who join the lecture, pay this price to lecturer and the web service gets some commission from this price.


The concept of these services is interesting, but it is hardly applicable in the Czech or Slovak market. Projects running globally do not have individual approach, do not run any marketing campaigns in small local markets and potential customers do not know them. These services would have employ localization strategy to success on the local markets. The most obvious evidence is using of payment possibilities. If having a paypal is the requirement of the service, it is not possible to success on the Czech or Slovak market. OnlineLektor and its features is mostly similar to EduFire, which uses a similar process of quality assurance and a similar technical solution. EduFire offers numerous subjects of lectures such as economy, management, IT and foreign languages. Following tables investigate the biggest strengths and weaknesses of possible complementary Internet services.



## Global players


<b>EDUFIRE</b> – <a href="http://www.edufire.com">www.edufire.com</a>	Founded	2006
	Market:	Global
	Subjects:	Languages, IT, Economy
	Amount of lecturers: Payment methods:	5000+ PayPal
<p>EduFire is one of the most known P2P learning solutions. Lecturers can create lecture on any possible topic. The main advantages include the large number of different lectures and whole topics more than 5,000 teachers. Really high quality is brought also by company blog, which offers many lectures for free. There are however big weaknesses, which would lower the chance of successful start on Czech or Slovak market.</p> <ul style="list-style-type: none"> <li>• A virtual Classroom is outsourced by Adobe software, which is not primarily developed for teaching purposes.</li> <li>• Confusing design does not motivate the customers to make a registration. Edufire also use too many advertisements Google Adsense on their webpage.</li> <li>• There is only Paypal, which is not in the Czech Republic that much used.</li> </ul>		


<b>ENGLISH CAFÉ</b> – <a href="http://www.englishcafe.com">www.englishcafe.com</a>	Founded	2009
	Market:	Global
	Subjects:	Foreign Languages
	Amount of lecturers: Payment methods:	2000+ -
<p>English Café is focused on creating a global community around language learning. Currently the site offers many free hours as well as materials for a free download. In this free lectures there are usually too many participants (minimum is 30) and therefore there is one-way communication preferred.</p>		

MYNGLE – <a href="http://www.myngle.com">www.myngle.com</a>	Founded:	2008
	Market:	Global
	Subjects:	Languages
	Amount of lecturers:	284
	Payment methods:	PayPal
<p>Project Myngle has a few interesting characteristics. It is originally students project who associates community of professional, certified lecturers and their students. The price for one lecture begins on 15 \$ and for Czech and Slovak market would be too high. Interesting idea is the eshop with past lectures.</p>		

### Czech and Slovak market

There are two possible players on Czech and Slovak market. No one of them is similar to OnlineLektor. Edubay is not a platform for teaching, but rather company who employs lecturers who teach through their platform. OLE platform is probably not working anymore, but it is difficult to assume.

EDUBAY – <a href="http://www.edubay.sk">www.edubay.sk</a>	Founded	2008
	Market:	Slovakia
	Subjects:	Languages
	Amount of lecturers:	Around 20
	Payment methods:	Bank transfer
<p>It is difficult to understand the idea of the project. It looks like there are employed lecturers who teach foreign languages through their platform. The platform (virtual classroom) has not been developed by this company, but it is outsourced. It is evident that this virtual classroom is technologically obsolete solution in comparison with described global services. Edubay works only on Slovak market and it is not competitor for OnlineLektor.</p>		

<b>OnlineLearning</b> -www.onlinelearning.cz	Founded:	2008
	Market:	Czech republic
	Subjects:	Foreign Languages
	Amount of lecturers: Payment methods:	
OnlineLearning – OLE Platform is software for language school and their lectures. There is no possible way how to make a registration. Customers are also not able to find any information about teachers. This system is since 04/2011 turned off.		

#### **4.5.4 The main advantages of OnlineLektor in comparison with described services**

There are several global and Czech internet services introduced. These services connect teachers and students and provide them tools for teaching through the internet. OnlineLektor is different in these points:

- OnlineLektor has own technology for key component – the virtual classroom. This part is developed in cooperation with language schools, private lecturers and students.
- Transparent process of choosing lectures by their experience, price, skills.
- OnlineLektor offers different ways how to pay for lectures (paypal, credit card, bank transfer).
- OnlineLektor utilizes individual approach and cooperates with language schools and private lecturers.
- There are marketing tools included for Language schools.
- 100% free market with online lectures (OnlineLektor does not set any minimal payments or any other restrictions)
- OnlineLektor is not another social network.
- One of the most important characteristics is usability of the application.

## **4.6 Porter's 5 forces analysis**

The competitive analysis does not focus on language schools and private lecturers, as they are not, with some exceptions, perceived as the competitors. Porter's five forces analysis investigates real competitors of the company, which are platforms for teaching through Internet.

The threat of new entrants in this industry depends on technological aspects. The barrier is clear – expensive and difficult development of the software, which is necessary. The project investigated in this diploma thesis would be first market entrant with such a technology, so it is difficult to evaluate the risk of new entrants. However, in the case of the project's success, new players join is just a matter of time. The success in the industry of providing platform for teaching through Internet stands on the technology, but at the same time at the relationship with the partners. Connection with partners can complicate the new entrant's work but it means at the same time potential advantage for current, strong players in the language industry. Companies such as GDI, s.r.o. has the strong market position and partners across majority of language school in the Czech market. If this certain company has the software, it can imply big risk of new strong entrant on the market. There are various ways how to improve language skills. As it has been already written in this diploma thesis, it is possible to visit normal language courses in a language school, visit the company courses, has a private lecturer or native speaker, read foreign literature or newspaper, or employ one of many self-studying method. All these ways can be classified as potential substitute products. It is rational to limit this set only on the substitutes on the Internet real-time lectures with the lecturer. Potential client can use the service of private lecturer teaching through Skype, do the same through professional language schools, which have already employed Skype or find similar service in the global market. Threat of substitute products is really low from this point of view. Disadvantages of teaching through Skype and similar Internet services in the global market are discussed in previous chapters. There is the same issue, when the competitive rivalry within an industry is analyzed. If all substitute products producers are perceived as competitors, there is really high rivalry in this industry. In the field of online lectures platform providers there is no any other player in Czech market so far and therefore there is no competitiveness at this moment. Bargaining power of customers is highly connected with

substitute products on the market. If they are not any comparable products, bargaining power of customers is naturally really low. Online lectures platform OnlineLektor can be perceived as the virtual market with supply and demand. The supply is represented by private lecturers and language schools whereas the demand by students. The bargaining power of customers plays some role on this integrated market, but OnlineLektor does not set any rules and restrictions on this market, so it is mainly business of supply side. Similar situation is in the field of bargaining power of suppliers. Technological project analyzed in this diploma thesis has suppliers only of marginal parts such as webhosting. Competition in this particular field is extremely high and advantage lies on the side of the project. Bargaining power of suppliers is in this case equals to zero. It is clear, that there will be certain bargaining power of suppliers in the integrated market of OnlineLektor, but it is not important to evaluate it in any way, as it is not in OnlineLektor's competences.

## **5 Business plan of small company and Strategy of its development**

### **5.1 Executive summary**

The main idea of this business plan is creating of Internet application OnlineLektor, which allows language schools and private lecturers find and teach students through the Internet.

According to included research, there is obvious demand for this kind of Internet service both from the side of lecturers and potential students. Main characteristics of application OnlineLektor has been determined through detailed analysis of similar global Internet services. Well-established global services are not applicable in Czech and Slovak market for many reasons such as language barrier, different style of human-computer interaction, foreign payment services. The OnlineLektor is designed mainly for Czech and Slovak market.

Application described in this business plan has been already developed with language schools, private lecturers and language students' contribution. Main goal is to create application or service, which solves real problem of a target group. The best way how to achieve this goal is to cooperate with all potential groups of users in all stages of development cycle.

Team of OnlineLektor is composed of experienced web application developer and two persons interested in Internet marketing. The part of the market entry strategy is launching searcher of language courses – Internet website with clear certain added value for the customer. This searcher was launched in September 2010 and brought more than 40 strategic partners for the OnlineLektor.

## **5.2 Main aspects of the project OnlineLektor**

### **5.2.1 The product**

There is no doubt about language education importance in this age. As it is described in the analytical part, primary and secondary education system in Czech republic does not ensure required level of language skill level. According to our research, there is strong demand of private lecturers and language schools services in Czech and Slovak market. There is also significant segment of customers, which wants to learn foreign language and at the same time does not want to visit these organizations from different reasons. These customers have lack of time, they have small children or they just do not want to pay for all long-term course significant amount of money.

Project OnlineLektor connects language schools, private lecturers and students. The main contribution is providing advanced and unique tools for effective foreign language teaching directly through Internet browser and at the same time ensuring payment settlement between student and lecturer. Key aspect is that all the technologies are included in Internet Browser. Users do not need install any additional software such as Skype, Google Talk or Microsoft Netmeeting. Besides described teaching technologies, OnlineLektor plays the role of another communication and advertising channel for language schools and private lecturers. Application provides different advertising tools for both online and normal language courses.

#### **Financial and service flows**

Figure no. 4 demonstrates connection of lecturers, language schools and student in the system OnlineLektor. Lecturers, who are private or employed by certain language school, offer online lectures. Lecturers define price for one teaching hour, which is paid by student through our payment system. In this case, OnlineLektor generates profit by adding margin to a teaching hour price. Language schools can use various ways of propagation their service and increase amount of customers for both online and normal language courses. This functionality and connected benefits is described in other part of this business plan.

General benefit of the product for language schools and private lecturers is obvious: OnlineLektor is a tool for your marketing and direct sale channel of your services. Language schools can use text advertising, but they also can show their experienced lecturers and their technics to everybody in the Internet. Language schools can achieve objective evaluation, satisfied students and present their results in modern social networks, such as Facebook, Twitter or LinkedIn.

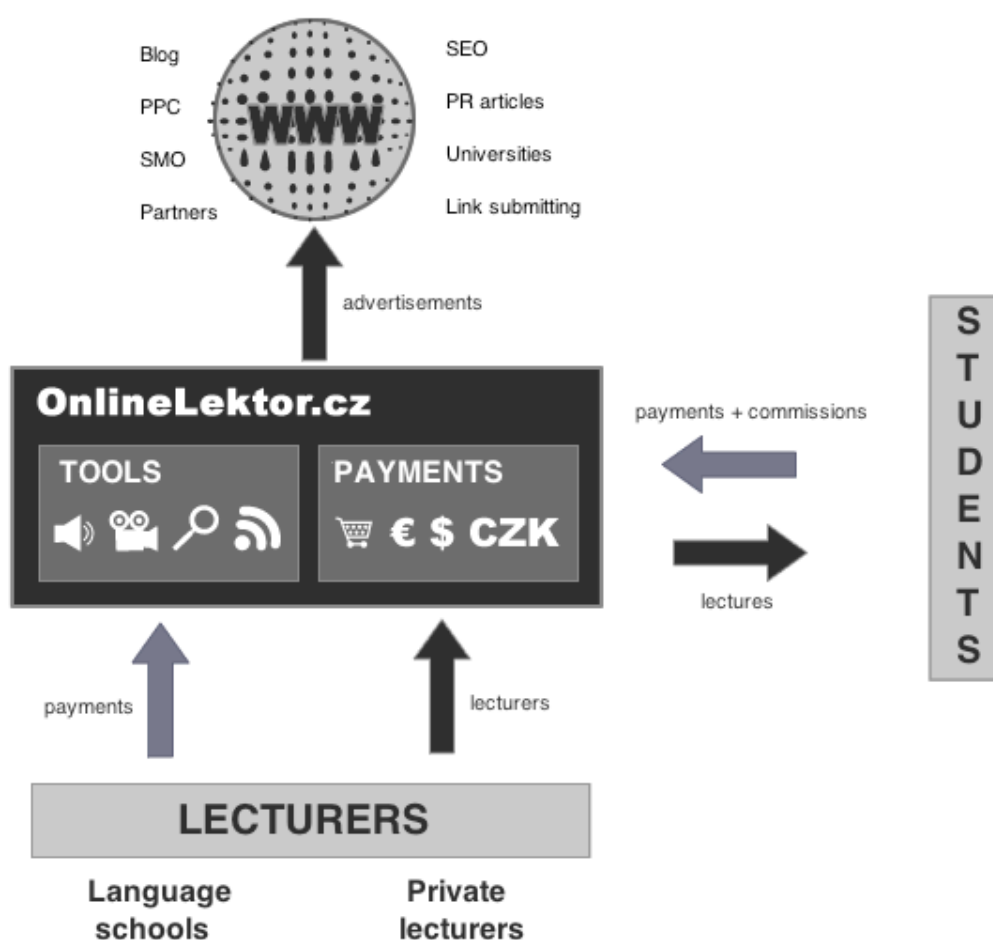


Figure 4 - Flows of services and finances



## **5.2.2 Technical background of developed application**

Internet application OnlineLektor can be divided into two main parts from technical and design point of view:

### **Official Internet page [www.onlinelektor.cz](http://www.onlinelektor.cz)**

Official Internet page plays the role of presentation and selling unit. This internet page tries to convert website visitor to registered user. After the registration it ensures crossing of language tuition demand and supply and allows language schools make advertising activities. Main functions of this official page are:

- Promotion of private lecturers and language schools
- Registration process of students, private lecturers and language schools
- Search and advanced filtering of online language courses
- Payment settlement
- Forum, Blog and other additional content for users

### **Virtual classroom**

Component, which allows through advanced technologies realize online lecture in an Internet browser. Correct user interface design is absolutely crucial for success of a project. Main parts and functions are:

- Audio and video real-time transfer built in Internet browser
- Chat
- Virtual blackboard for creative cooperation
- Tool for cooperation on grammatical exercises in a real-time
- Other tools for lecturer and student interaction

For a better imagination is rather than text and bullet point recommended to see first preview of homepage design – figure no. 5.

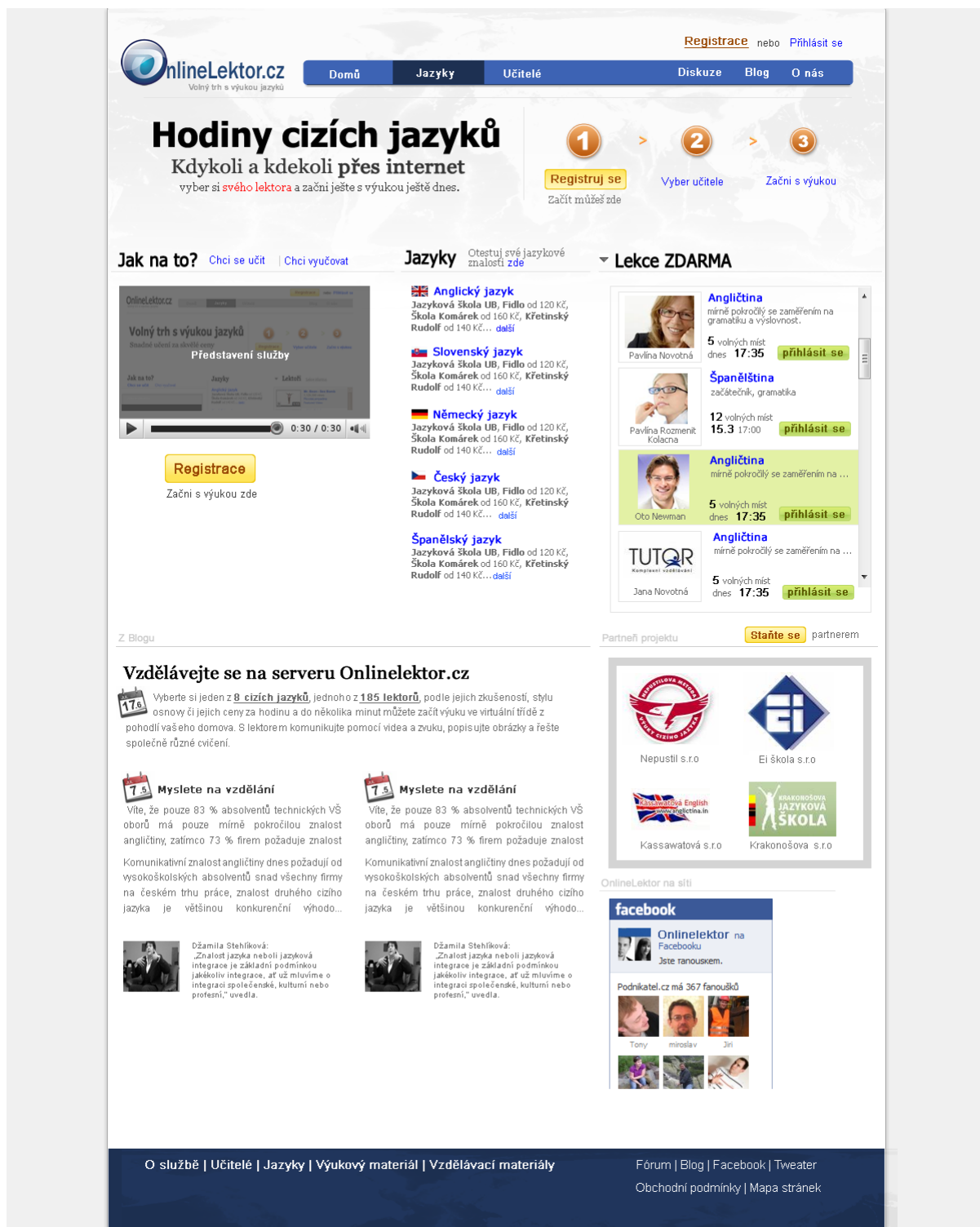


Figure 5 - Preview of homepage design

## **Design and development of virtual classroom**

Design of components and user interface of virtual classroom, the fundamental element of the product from technical point of view, is continuously developed with cooperation with language schools and students. Some graphical concepts and design has been developed and they are included as appendixes. There are two main technologies, which will be used for development of the core of the virtual classroom. It is Flash Server Red5 and HTML5. This technology cannot be outsourced, because there is no available product on the market, which would meet virtual classroom requirements. There is more written about development in a chapter 5.5.1.

There are three characteristics of the application described in the following text.

### **Easy to use**

Absolutely intuitive user interface and used language is the part of the competitive advantage of the project. Analysed similar global services are full of useless content and functionality, which is not connected with language learning process. These mistakes discourage registration of potential costumers, as they are not able to understand the principle of the service. OnlineLektor avoids typical social network's characteristics such as creating of interest groups and making connection between users.

### **Directness**

Every visitor of the web page OnlineLektor should understand within few seconds that this is virtual marketplace with online lectures. It is important to attract attention by opportunity to try virtual lecture free without any commitments.

## OnlineLektor is not a social network

Besides the main functionality student can go through language school and lecturers' profiles, plan his tuition or check the payments activities. Any other possible social networking functionality is not included in the project.

### 5.2.3 Benefits for language schools

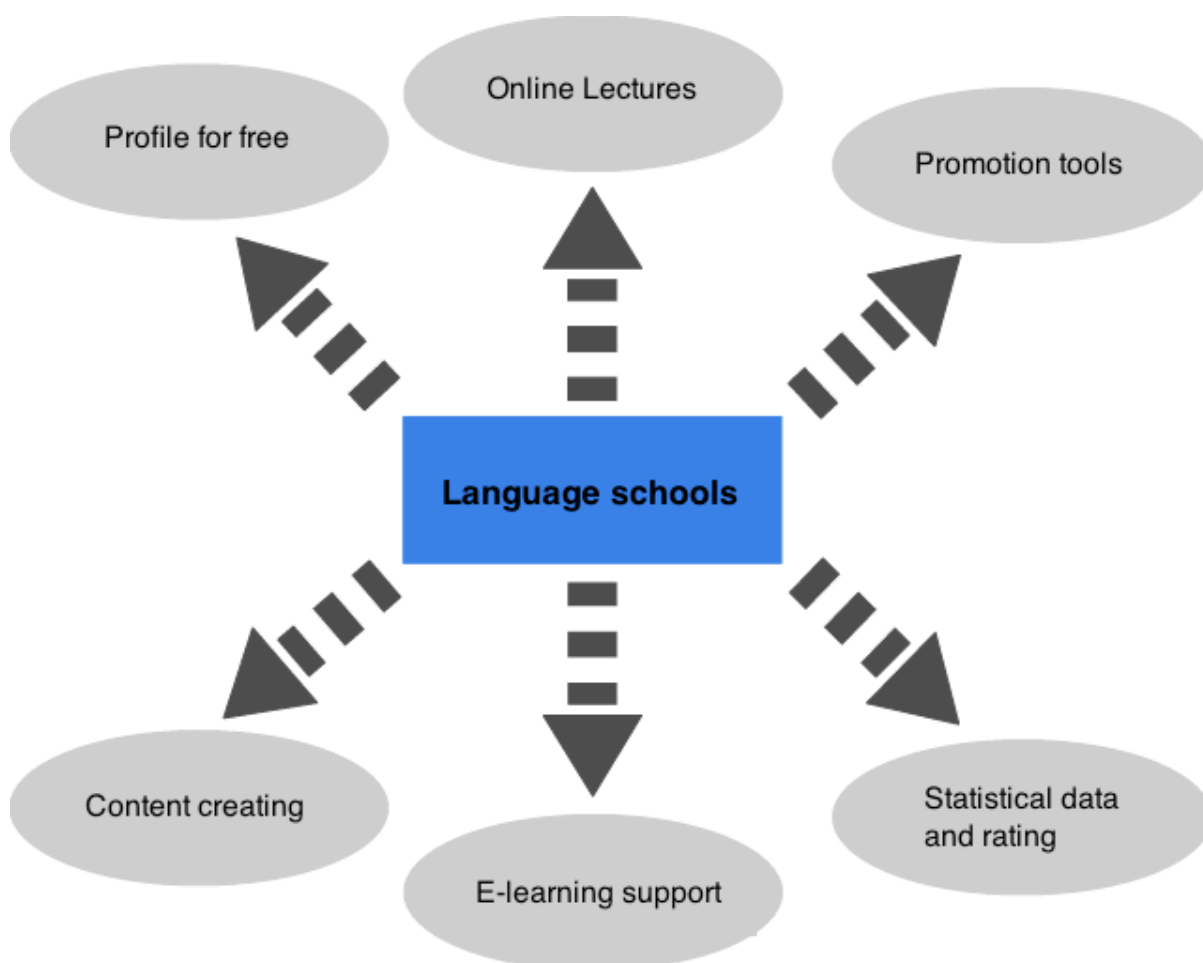


Figure 6 - Benefits for language schools

**OnlineLektor is from language schools point of view new service, which brings these potential benefits:**

- a) Increase of brand recognition
- b) Increase of customers and therefore increase of profit

- c) Effective decision making based on students feedback and objective rating system
- d) Possibility to get market share not only on local market (online lectures)

All services and potential benefits are discussed and directly developed in cooperation with language schools. Main contributions have language schools Kurzy Jílek and Cloverleaf Limited, s.r.o. Main services for language schools of OnlineLektor have been determined according to this cooperation.

### **Detail preview of services provided for language schools**

- a) Teaching through the Internet in the virtual classroom
  - direct profit from lectures
  - new, unique form of promotion (free trial online lessons etc.)
- b) Language school profile for free
  - lecturers and their experience and education preview online
  - online and offline (normal) language courses calendar with direct booking system
  - another communication channel for targeted audience
  - possibility to publish promotional video materials
  - possibility to change graphic design of a profile
- c) Various forms of online marketing
  - banner advertising
  - logo on OnlineLektor's homepage
  - context advertising
  - targeted advertising by age, language level of a student
  - public relation articles
  - course highlighting
- d) Marketing and Public relations through interactive materials creation
  - possibility to create interactive language exercises directly in OnlineLektor
  - possibility to create listening and video exercises and distribute it

- easy distribution on OnlineLektor network, on social networks etc.
- e) Advanced statistics, data and feedback
- effective evaluation of teaching quality, lecturers' technics quality
  - digital feedback by students
  - tools for demand estimation
  - support for recruiting new lecturers
- f) E-Learning support for offline (normal) courses
- support of offline courses
  - e-learning materials for language courses students and current customers
  - possibility to meet lecturer on OnlineLektor

#### **5.2.4 Benefits for private lecturers**

Private lecturers play also significant role in the project OnlineLektor. They are mainly motivated to teach online and get new customers to:

- a) Generate a financial profit
- b) Build reputation
- c) Get experience, which can use in carrier life

#### **5.2.5 Partners of OnlineLektor**

OnlineLektor creates strategic partnership with different language schools. Main partner of OnlineLektor is language school – Kurzy Jílek, s.r.o. Other partners, which have contribution to the project are for example Cloverleaf Limited, s.r.o., Edu4u, s.r.o. or Jazyková škola Online. The main benefit is possibility to get internal information from language teaching industry, get feedback of OnlineLektor functionality, user interface etc.

OnlineLektor has also media partners for cooperation in marketing activities such as Hyperstudent.cz, Najdijob.cz or well-established project Staze.cz.

### **5.2.6 Current situation of the project**

Company has been operating as the internet searcher of language schools and language courses since 09/2010. This product is not highly connected with described idea and business case in this business plan. The searcher of language courses is the part of market entry strategy explained in following part of this business plan. Current product is built mainly to achieve three objectives: Create a fundamental brand experience of OnlineLektor, allow creating and deepening the relationship with language schools and creating at least minimum profit to cover development expenses. Official page of the company was launched in august 2010, together with official Facebook and Twitter account. 43 language schools have joined OnlineLektor since august 2010. Partners of OnlineLektor are selling hundreds language courses through OnlineLektor, which now works as a virtual marketplace with normal language courses. In addition OnlineLektor announced that is going to provide advanced technology for its partners, which allow booking of language courses directly from the biggest social network – Facebook.com. All mentioned activities are the part of market entry strategy, which should increase chances of the online lectures success.

### **5.3 Management team**

Name and surname: Bc. Jindřich Fáborský  
Date of birth: 19.08.1987  
Tel. number: +420775364195  
Email: faborsky@onlinelektor.cz  
Role: Project leader

Jindrich is author of this master thesis and co-author of the business idea. He is responsible for the business case, business plan development, market entry strategy, marketing plan and communication with strategic partners. He is experienced in the field of internet marketing as he helped with marketing strategies for Czech companies such as Snowboard Zezula, s.r.o.,

IglooNET, s.r.o., Hotel Hoffmeister, s.r.o. or Czech model train museum Království Železnic, a.s.

Name and surname: Bc. Peter Marcely  
Date of birth: 14.07.1987  
Tel. number: +420 776 268 918  
Email: marcely@onlinelektor.cz  
Role: Main developer

The Peter's main role is ensuring all technical aspects of the OnlineLektor. It means mainly application design, implementation and testing and choosing the suitable supplier of webhosting services. Peter has a strong IT knowledge background given by his studies in the Faculty of information technology Brno. His biggest strength is real experience in the field of web services developing as he has been working for more than four years for a company +421 Web Services, s.r.o.

Name and surname: Petr Blahutka  
Date of birth: 12.07.1977  
Tel. number: +420776012930  
Email: blahutka@onlinelektor.cz  
Role: Graphics designer

Last team member is Petr Blahutka. He is highly interested in Internet marketing and experienced in the field of webdesign and software development. Petr is also experienced in the field of Internet business and start-ups as he is founder of portal Najdijob.cz.

Team member	Share	Main role
Jindřich Fáborský	40%	Team leader, internet marketing
Peter Marcely	40%	Main developer
Petr Blahutka	20%	Graphics design and sales



## 5.4 Marketing plan

### 5.4.1 Advertising possibilities

According to experience in the field of internet marketing there are determined possible methods which will be used for OnlineLektor's marketing. Figure no. 7 shows some of possible methods. These technics and methods are described and analysed in a following parts.



Figure 7 - Marketing tools

### 5.4.2 Internet marketing

#### a) SEO – Search engine optimization

Search engine optimization (SEO) is absolutely essential part of internet marketing for most of the companies in a present age. SEO includes various technics of OnPage and OffPage

optimization, which can improve indexation and visibility in a global and local web searchers such as Google.com, Bing.com or Seznam.cz. Author of this master thesis is self-employed in the field of Internet marketing and SEO, which means that OnlineLektor does not need to outsource these activities.

#### b) Social network marketing and communication

Social networks are changing traditional perception of a marketing. Presence on the biggest social networks such as Facebook, Twitter and LinkedIn is important especially for consumer oriented businesses. According to uniqueness of the project, there is chance to get significant audience on these social networks. OnlineLektor's profiles on Facebook and Twitter has been already created.

#### c) Pay Per Click (PPC) advertising

In PPC advertising companies pay only for clicks on a text or graphical advertisement. This characteristic allows advanced planning and decision-making. There are three most significant PPC providers in the Czech market – Google Adwords, Seznam Sklik and Facebook Ads. Google Adwords and Seznam Sklik reach potential customers during the buying cycle. These systems are built on contextual targeting, where the advertisement context matches with search term context. Although, Facebook Ads is usually cheaper, it works in a different principle. Facebook offers targeting system based on interests and favourite activities of its users.

OnlineLektor plans to spend highest part of the marketing budget for PPC campaign that employs all three mentioned platforms. According to market research there are numerous players in language teaching sector and the price for on click (CPC) is fairly high. In a table no. 4 is approximate distribution of marketing budget within the PPC campaigns. This will be improved by results of separate campaigns.

Q1 / 2012				Total Expenses	20 000 Kč
Service	Expenses	CPC	Visitors	CR	New customers
Google Adwords	9,000.00 Kč	8.00 Kč	1125	1.25%	14
Facebook CPC	7,000.00 Kč	2.00 Kč	3500	0.70%	25
Seznam Sklik	4,000.00 Kč	4.00 Kč	1000	1.20%	12
<b>Total Numbers</b>	<b>20,000.00 Kč</b>		<b>5625</b>		<b>51</b>

Q2 / 2012				Total Expenses	60 000 Kč
Service	Expenses	CPC	Visitors	CR	New customers
Google Adwords	30,000.00 Kč	8.00 Kč	3750	1.25%	47
Facebook CPC	20,000.00 Kč	2.50 Kč	8000	0.75%	60
Seznam Sklik	10,000.00 Kč	4.50 Kč	2222	1.20%	27
<b>Total Numbers</b>	<b>60,000.00 Kč</b>		<b>13972</b>		<b>134</b>

Q3 / 2012				Total Expenses	30 000 Kč
Service	Expenses	CPC	Visitors	CR	New customers
Google Adwords	14,000.00 Kč	8.50 Kč	1647	1.35%	22
Facebook CPC	10,000.00 Kč	2.80 Kč	3571	0.80%	29
Seznam Sklik	6,000.00 Kč	4.70 Kč	1276	1.35%	17
<b>Total Numbers</b>	<b>30,000.00 Kč</b>		<b>6495</b>		<b>68</b>

Q4 / 2012				Total Expenses	30 000 Kč
Service	Expenses	CPC	Visitors	CR	New customers
Google Adwords	14,000.00 Kč	8.50 Kč	1647	1.50%	25
Facebook CPC	10,000.00 Kč	3.00 Kč	3333	1.00%	33
Seznam Sklik	6,000.00 Kč	4.90 Kč	1224	1.50%	18
<b>Total Numbers</b>	<b>30,000.00 Kč</b>		<b>6204</b>		<b>76</b>

Table 4 - PPC Campaigns estimation

Previous table shows that PPC budget for 2012 is equal to 140 000 CZK and it means the highest expense of the company in this period. There are estimated also important metrics such as CPC – average price per one click or CR – conversion ratio. Conversion ratio investigates how many visitors is converted to registered user from particular source. Data in the tables are based on data of current marketing campaigns of the company and author's experience. Price for advertisements in the internet has rising trend in general (see app. 5) and this fact is reflected in this data. On the other hand Google Adwords system has for

instance lifecycle, which support long term, regular and successful campaigns. The conversion ratio has also rising trend, as the main effort of the all web pages is improve user experience and conversion ratio in the time. Investment into PPC campaigns should bring over 300 real costumers for the company. All these data are investigated with details in financial section.

#### d) Network of small language websites development

Part of the marketing strategy is also creation of the network of small internet website in foreign language related topics. These websites provides some kind of added value for a visitor. Goal is to create website with minimal costs, which operates in a really tiny niche market, solve real problem and attract visitors, which could be potential customers of the company. These websites achieve advantage in searchers, as they are niche oriented and use keywords in a domain name. If the small site is successful and generates some traffic, OnlineLektor is able to advertise for free on it. OnlineLektor has already owned small well-established projects such as nepravidelnalslovesa.cz, frazovaslovesa.cz or anglictina-pres-facebook.cz.

#### e) Publication of PR articles

Education topics are favorite and generally accepted. Creating and publication education articles with added value for a reader is part of the OnlineLektor marketing strategy. In the first phase are employed low-quality free servers such as eclanky.sk, prclanky.sk or seoclanky.sk. There is also possibility to publish articles on the server hyperstudent.cz, which is partner of OnlineLektor.

#### f) Purchase of established language portal

Purchase of established language portal with unique content and regular visitors is a rational way how to improve visitors and marketing activities of OnlineLektor. These days there are negotiations with couple of Czech and Slovak portals.

#### g) Blogging

Publishing informal and language teaching related articles is in general smart technics how to create real face of the company. OnlineLektor does not want to provide high amount of text content on the official page and therefore employing of the blog is correct way. Official blog has been already created on the web address [blog.onlinelektor.cz](http://blog.onlinelektor.cz). Authors there discuss aspects of the OnlineLektor behind the scenes and also comments news from the industry.

#### h) Directory listings

The other cost-effective marketing technic is web directories listings. There are thousands general website directories and few niche oriented directories, which allow to add listing of the project or company for free.

### **5.4.3 Other marketing activities**

#### a) Promotion through language schools

Language schools are important part in promotion process. OnlineLektor can be introduced to students in our partner language schools, as it is part of their learning process. Students get additional materials or additional lectures via OnlineLektor platform. Language schools that do not use these features still do have profile on OnlineLektor<sup>3</sup> with student's feedback, reputation and other information.

#### b) Advertising in the universities

University students are another significant segment of the customers, according to the research and the survey enclosed in this diploma thesis. OnlineLektor is targeting its advertising on this market segment. Advertising activities are arranged online and offline. As the online advertising channels are used network of partners (portals [staze.cz](http://staze.cz) and

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<sup>3</sup> For example profile of language school Kurzy Jilek, s.r.o. - [www.onlinelektor.cz/language-school/kurzy-jilek](http://www.onlinelektor.cz/language-school/kurzy-jilek)

hyperstudent.cz) and as the offline there is possibility to inform student directly in university campus.

## **5.5 Technical aspects**

### **5.5.1 In house software development**

In house software development and utilizing own sources is rational in the case of small start-up company. All team members are involved in the software development process. The design of the service OnlineLektor and its functionality is discussed and created in cooperation with language schools, private lecturers and students.

For the internet page, databases, frontend of application and promotion tools there are employed technologies such as XHTML, CSS, PHP5, MySQL, JavaScript and AJAX. Development of Internet pages and frontend of application was estimated at 200 programming hours. Majority of these works are already implemented in the last version of OnlineLektor. There are profiles of lectures and language schools, registration process, administration, creating of lectures and registration to them and there are also implemented basic propagation tools for language schools.

The key component of the project is virtual classroom described in other part of this diploma thesis. This component is based open-source project Red5.<sup>4</sup> OnlineLektor use this platform for creating virtual classroom and its frontend for lecturer and students. Programming languages Java and Adobe Flex are employed for this development. Development process has already begun and there are examples included in the end of this diploma thesis. All the works are estimated at 700 working hours.

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<sup>4</sup> Red5 – The open source media server - <http://www.red5.org/>

### **5.5.2 Webhosting**

OnlineLektor will be robust application with significant data transfers and with own payment system. According to these characteristics, the application should be hosted on some cloud computing solution. Cloud computing virtual offers scalability. It is possible to change to performance of the server (number of processors, amount of RAM operation memory) in a real-time in regards to current requirements. There are other important advantages of cloud computing solutions such as cost-effectiveness, 100% availability and real-time data backups. As the provider of described solution has been choosen company Slicehost.<sup>5</sup>

In the beginning Onlinelektor runs on the basic webhosting provided by local company IglooNET, s.r.o. According to cooperation with this company, webhosting is free for the company.

## **5.6 Financial Plan**

It is possible to find data about estimated expenses of the project in different chapters of this diploma thesis. There are predicted expenses for virtual servers, PPC marketing campaigns etc. In this chapter are all possible incomes and expenses described in details and estimated for first two years of the online lectures part of the company.

### **5.6.1 Financial history**

The company launched first service in September 2010. Since this month it has been working as language courses mediator. Every user can easily search for language course and sort them by city, language level, day, price and even exact hours of the lectures. This service does not achieve any enormous popularity but it is the part of marketing strategy and it does not bring any additional expenses. According to financial history it is possible to assume and estimate future development of incomes and expenses.

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<sup>5</sup> Slicehost – Rackspace provider - <http://www.slicehost.com/>

	Q4 2010	Q1 2011	Q2 2012
Incomes	4,900.00 Kč	6,000.00 Kč	17,320.00 Kč
Expenses	5,000.00 Kč	0.00 Kč	0.00 Kč
Language Courses Sold	12	13	24

Table 5 - Financial history

As it has been already written, OnlineLektor launched in September 2010. It sold language courses of language schools, which are in the partner network. Incomes are created by the commission from sold language courses. Language schools pay 8 % of the language course price for one real customer of the course. Incomes of the project are really low, but there are no any administration or any other expenses at this moment. The system is fully automatic. This historical development can also help with the estimation of internet pages visitors. There are more than 100 visitors per day on the current webpage of the company (see app. 4). These data are used in the following chapters.

## 5.6.2 Expenses of the project

### Marketing campaigns

The most significant expenses of the project are definitely marketing campaigns expenses. These are created mainly by PPC Campaigns on the Google Adwords, Seznam Sklik and Facebook Ads as it is described in the chapter 5.4.2. Other marketing activities, such as SEO, Facebook marketing or creating educational websites, are not included in the estimation of expenses as it is made by management team, which works for free for the project in the first phase.

### Administrative work

Company will need additional human resource for administrative works since certain amount of orders, registered language school, private lecturers and students. It is necessary to count with these additional expenses in the following estimation. This budget can be used also as the salary for management team, if they will manage administration by themselves.



### **Accounting and law services**

In the first phase company does not need any additional accounting or law services. Terms and conditions for the Internet service were prepared in September 2010, when the searcher had been launched. There is no doubt that company will need consulting services in these fields.

### **Webhosting**

The company has only one supplier. Requirements of webhosting services and additional information is in the chapter 5.5.2. The company does not have any expenses right now, as this services is arranged by the partner company IglooNET, s.r.o. The part with online lectures require virtual server, which brings additional expenses from 2000 to 4000 CZK / month.

## **5.6.3 Incomes of the project**

### **Lectures commission**

This is the first source of income from online lectures. The company get commission from the price of all online lectures on the platform. Total expenses depend on pricing model. Data in following chapter counts with the commission 30 CZK from the one online lecture in average.

### **Direct selling of advertisements**

OnlineLektor offers space for banner and text-based advertisements for educational products and companies.

### **Indirect selling of advertisements**

The company will use in the first phases systems such as Google AdSense for generating additional expenses from selling advertisements.

### **Paid language schools' position**

Language schools can pay additional small prices for improvement of their positions in the searcher. This system is available for normal courses, language schools listings and for separate online courses. Similar system is used by Internet catalogues such as Zbozi.cz, or on virtual marketplaces such as Aukro.cz. This form of advertisement makes sense since sufficient amount of visitors and registered users and therefore is planned on Q2 / 2012.

### **Mediating of language courses**

The company has been mediating language courses since September 2010. Details and financial aspects of this activity are described in the chapter 5.6.1. – financial history. Incomes from this activity has rising trend.

### **OnlineLektor Ads Platform**

Visitors of the company official website are mainly students or people, who wants to improve their language skills. This fact can be used for launching own advertisements platform for language schools. The principle of the service is similar to Facebook Ads system, with the difference of the targeting. OnlineLektor Ads platform will substitute direct and indirect selling of advertisements in Q4 / 2012.

### **Affiliate marketing**

Affiliate marketing will generate marginal amount of incomes. The company negotiate with the companies selling language exercise books and other self-studying tools. Principle is clear. Language schools usually mentions the name of exercise book, which is required for

the course. This name can be hyperlink to the Internet reseller of the book. There are some commission from finished orders made by OnlineLektor's visitors.

#### **Paid language schools subscription**

Certain and regular source of income will be launched after market establishment in Q3 / 2013. Following tables estimate 110 language schools in the system in Q3 / 2011, which will start pay 200 CZK for their subscription per month.

#### **Paid private lecturers subscription**

Similar system should be settled also for private lecturers. Following estimation for next 2 years does not include establishing of paid subscription for private lecturers.

### **5.6.4 Estimation of income and expenses**

#### **Situation in 2012**

The main product is according to plan of development planned on April 2012. There are incomes only from mediating of normal language courses and selling advertisements. According to marketing plan, the company starts with marketing campaign in the January 2012. Users and potential costumers of online lectures can register and wait for advanced online lectures revealed in April. According to relatively high marketing budget, there are estimated 5 online lectures per day since the first day of the project in average. It generates 13 500 CZK in Q2 / 2012. Due to mentioned marketing expenses will dramatically grow the number of visitors of internet pages, which can bring addition incomes from selling advertisements. In the end of the year 2012 OnlineLektor plans to have more than 750 registered users, 220 private lectures, 80 language schools and 15 online lectures per day in average. 300 registered users came through paid PPC campaigns according the marketing plan. There are 43 registered language schools at this moment.

		2012			
		Q1	Q2	Q3	Q4
<b>Expenses</b>	Webhosting	0 Kč	6,000 Kč	9,000 Kč	9,000 Kč
	Administrative work	0 Kč	0 Kč	20,000 Kč	20,000 Kč
	Accounting services	0 Kč	1,500 Kč	1,500 Kč	1,500 Kč
	Law consulting services	10,000 Kč	0 Kč	0 Kč	0 Kč
	Marketing Expenses	20,000 Kč	60,000 Kč	30,000 Kč	30,000 Kč
	<b>Total Expenses</b>	<b>30,000 Kč</b>	<b>67,500 Kč</b>	<b>60,500 Kč</b>	<b>60,500 Kč</b>
<b>Incomes</b>	Lectures commission	0 Kč	13,500 Kč	24,300 Kč	40,500 Kč
	Direct selling of advertisements	3,000 Kč	9,000 Kč	12,000 Kč	12,000 Kč
	Indirect selling of advertisements	3,000 Kč	3,000 Kč	3,000 Kč	2,000 Kč
	Paid positions by language schools	0 Kč	3,000 Kč	3,000 Kč	5,000 Kč
	Normal courses mediating	15,000 Kč	16,000 Kč	17,000 Kč	18,000 Kč
	OnlineLektor Ads platform	0 Kč	0 Kč	0 Kč	10,000 Kč
	Affiliate marketing	0 Kč	1,000 Kč	3,000 Kč	5,000 Kč
	Paid language schools subscription	0 Kč	0 Kč	0 Kč	0 Kč
	Paid private lecturers subscription	0 Kč	0 Kč	0 Kč	0 Kč
	<b>Total incomes</b>	<b>21,000 Kč</b>	<b>45,500 Kč</b>	<b>62,300 Kč</b>	<b>92,500 Kč</b>

Table 6 - Estimated incomes and expenses in 2012

Additional data	2012			
	Q1	Q2	Q3	Q4
Amount of online lectures / day	0	5	9	15
Registered language schools	55	60	70	80
Registered private lecturers	100	150	180	220
Registered students	80	280	480	756

Table 7 - Number of registered subjects in 2012

### Situation in 2013

Predicting economic numbers for more than one year is in the Internet world really big challenge. Data in the tables does not assume any bigger changes and predict approximate numbers of registered users, students and language schools. It is difficult to predict success of marketing activities or the price per click of PPC campaigns – the most significant part of expenses of the company. Estimations are more likely pessimistic and expect 10 new registered language schools, 20 new registered private lecturers and 200 registered students every 3 months. In the end of the year this plan expects 120 registered language schools, 300

private lecturers and 1600 registered students. On the platform should be arranged 27 online lectures per day.

		2013			
		Q1	Q2	Q3	Q4
<b>Expenses</b>	Webhosting	12,000 Kč	12,000 Kč	12,000 Kč	12,000 Kč
	Administrative work	20,000 Kč	20,000 Kč	20,000 Kč	20,000 Kč
	Accounting services	6,000 Kč	6,000 Kč	6,000 Kč	6,000 Kč
	Law consulting services	10,000 Kč	0 Kč	0 Kč	0 Kč
	Marketing Expenses	40,000 Kč	40,000 Kč	60,000 Kč	60,000 Kč
	<b>Total Expenses</b>	<b>88,000 Kč</b>	<b>78,000 Kč</b>	<b>98,000 Kč</b>	<b>98,000 Kč</b>
<b>Incomes</b>	Lectures commission	48,600 Kč	56,700 Kč	64,800 Kč	72,900 Kč
	Direct selling of advertisements	12,000 Kč	12,000 Kč	12,000 Kč	12,000 Kč
	Indirect selling of advertisements	0 Kč	0 Kč	0 Kč	0 Kč
	Paid positions by language schools	6,000 Kč	8,000 Kč	12,000 Kč	12,000 Kč
	Normal courses mediating	19,000 Kč	20,000 Kč	20,000 Kč	20,000 Kč
	OnlineLektor Ads platform	10,000 Kč	14,000 Kč	18,000 Kč	22,000 Kč
	Affiliate marketing	6,000 Kč	6,000 Kč	7,000 Kč	7,000 Kč
	Paid language schools subscription	0 Kč	0 Kč	66,000 Kč	72,000 Kč
	Paid private lecturers subscription	0 Kč	0 Kč	0 Kč	0 Kč
	<b>Total incomes</b>	<b>101,600 Kč</b>	<b>116,700 Kč</b>	<b>199,800 Kč</b>	<b>217,900 Kč</b>

Table 8 - Estimated incomes and expenses in 2013

Additional data	2013			
	Q1	Q2	Q3	Q4
Amount of online lectures / day	18	21	24	27
Registered language schools	90	100	110	120
Registered private lecturers	240	260	280	300
Registered students	1000	1200	1400	1600

Table 9 - Number of registered subjects in 2013

### Visualisation of predicted data

The company operates with small incomes and expenses. According to predictions and calculations in previous chapters, the company should achieve break even point in Q3/2012. In the end of Q3/2012 it should have almost 500 registered students, 180 private lecturers and 70 language schools. Incomes come mainly from commission of online lectures, where it is

expected to arrange 9 online lectures on the platform with 30 CZK commission per one lecture. Predicted incomes and expenses are visualised in the chart no 5.

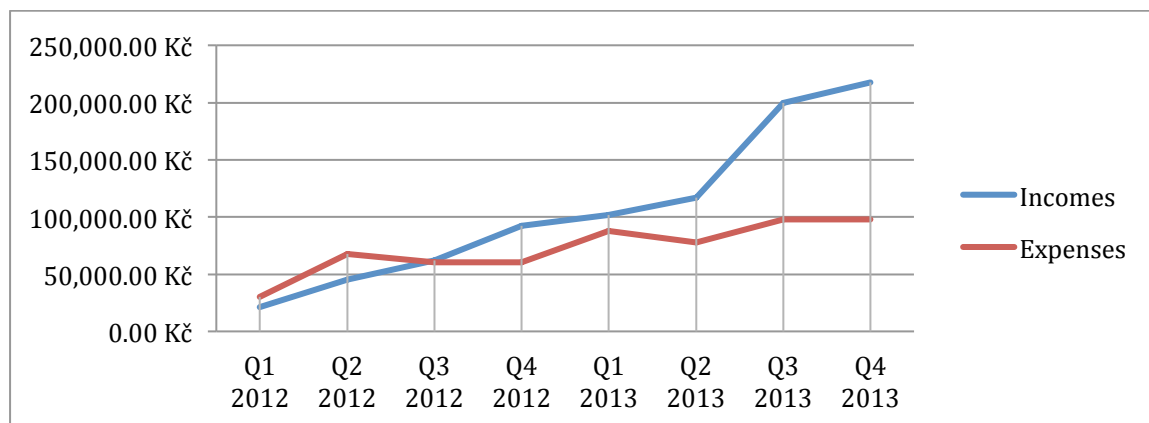


Chart 5 - Incomes and expenses prediction

## 5.7 Project timeline

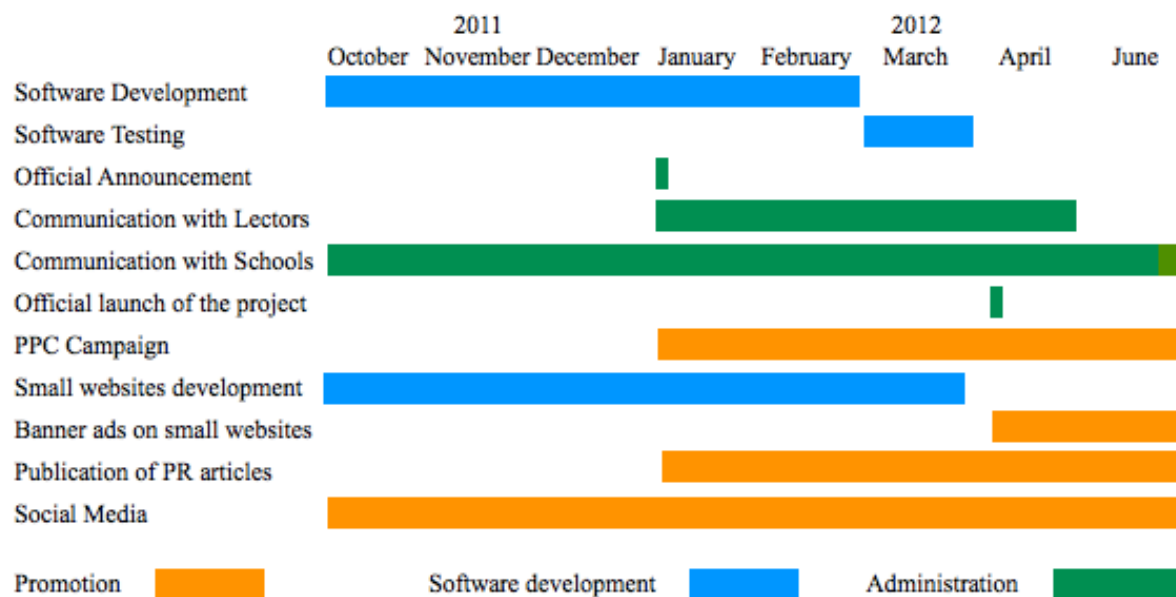


Chart 6 - Project timeline

Separate stages of the company development are described in related parts of this diploma thesis. This chapter provides view on the data in the chart no. 6. Software, mainly virtual

classrooms have been developing since April 2011 and the development will be finished in the end of February 2012. Robust testing of all components follows software development. This process takes all the month of March 2012. Administration includes mainly direct communication with lecturers and language schools. There are also visualised the data of promotion activities of the company. Social media communication has started with the first product of the company – the searcher of language courses. Marketing activities on Facebook and Twitter will continue all the time. As it is written in the included marketing plan, the main part of promotion – PPC campaigns are launched on January 2012. The online lectures platform will be released in the first part of April 2012.

## 5.8 Strategic development

There are three main ways of OnlineLektor's strategic development. None of them is included in the estimation of incomes and expenses in previous chapter. Project can significantly extend the network of customers and improve financial results by successful employing of one of these strategies. Figure no. 8 demonstrates possible ways of future development.

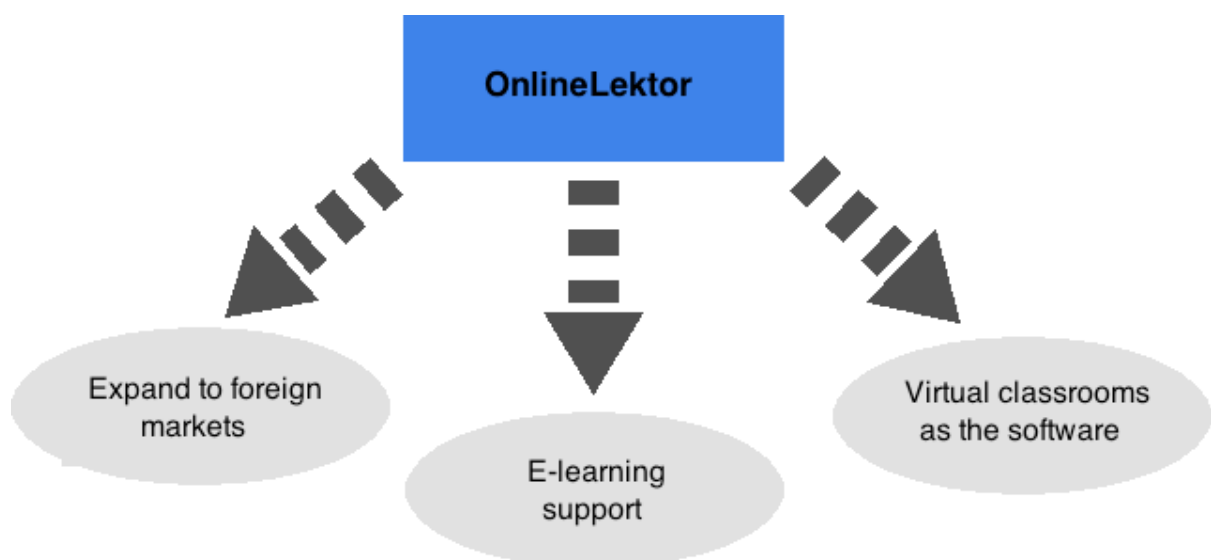


Figure 8 - Strategic development

### **5.8.1 Expand to foreign markets**

OnlineLektor can be technically launched globally at the same moment with Czech and Slovak version. Other aspect is in this case individual approach to private lecturers, language schools and especially students. There are many players in our competitor analysis, which launches similar people to people teaching solution for all markets and at the same time for all kinds of subjects. It is obvious that market potential of global markets is significantly higher, but OnlineLektor chooses the way of individual approach and targeting strictly on foreign languages.

In the case of successful establishment in the Czech and Slovak market, there will be efforts to join other culturally and geographically close markets. In the first phase it would be Polish market. There is no Polish market environment research in this master thesis, but there is obvious demand for language learning on this market. Although translation of websites and its launch on local domain (for example onlinelektor.pl) is not a problem, expand to foreign market is really difficult process from the financial point of view.

There is other way how to expand OnlineLektor web service abroad. In Q3/2012 foreign lecturers will be allowed to join OnlineLektor and start teach Czech and Slovak students. Participation of lecturers from all over the world brings higher competitiveness among lecturers and higher popularity of the project. OnlineLektor is technically prepared for foreign lecturer's join.

### **5.8.2 E-learning support for language schools**

There are e-learning features included in development analysis of OnlineLektor. Besides the main functionality of virtual classroom, there are tools for creating, managing and distribution of language exercises and materials. These exercises are used in virtual classroom as the form of teaching support. There is the possibility for future development of the project. This part can be separated and offered to language schools as the separate platform for their e-learning activities. Language schools would be able to create, manage,



send and control learning materials on their main domain or even directly on the OnlineLektor.

Language schools would be able to offer e-learning support to their students, simply offer some added value. Implementation of open source e-learning platform or even own development of its might not be feasible for language school from financial point of view. Using of OnlineLektor e-learning platform as the web service with monthly payment could be possible way for language schools.

### **5.8.3 The virtual classroom as the software for internal purposes**

The system of virtual classroom is designed to be easily changed and used for example for internal purposes. It contains separate features, which can be simply deactivated in regards to potential customer requirements. It is possible to improve current system and prepare form of software distribution. Clients would use this software as the internal conferencing or e-learning tool based on their servers. It is also possible to launch similar project as the OnlineLektor in different industry.

## **5.9 Risk Assessment**

There are main risks identified and discussed in this part. OnlineLektor is technological project and therefore the main risk is the development process and technologies used in this process. Another important fact is that OnlineLektor is completely new Internet service in the Czech and Slovak market and market estimation can be inaccurate.

### **Complications with the key technology for voice and video transfer**

There is known risk, that using mentioned Red5 open-source flash server, as the platform for voice and video transfer, will be problematic. The service should be 100% reliable even under high pressure. The problem is much higher when customers pay for the platform. There is only one way how to minimize described risk. Truly robust testing process should be

employed. It is necessary to simulate expected load (number of separate virtual classrooms open in one moment) and add sufficient reserves. In the case that Red5 will not offer sufficiently reliable platform for OnlineLektor, it is necessary to find another solution. Risk of that is really small because this platform is used by many similar services all over the world.

### **Delayed development**

The delay is typical problem of numerous software development projects. It is caused mainly by significant errors in the analysis and planning part of the development. Analysis of OnlineLektor development is built in pessimistic way and all parts has substantial time reserves. Other fact is that some parts of system have been already developed and estimations are therefore more accurate.

### **New entrant in the Czech and Slovak market**

It is difficult to evaluate the risk of new entrant on the local markets. The barrier is clear – expensive and difficult development. However, in the case of OnlineLektors successful establishment, new players are expected. OnlineLektor does not stand only on technology but also on individual approach to language schools, private lecturers and student and on knowledge of students need. Language schools would not be motivated to join other similar project if they are already members of OnlineLektor community. New service would have to come with significant competitive advantage or it would have to be really strong brand.

### **Wrong estimation of customers need**

Although the financial estimations are built on pessimistic variant, there is a risk that customers' interest in online lectures will be lower in the real life. In this case it is rational to find a new communication and advertising channels and employ one of described strategic development.

## **6 Conclusion**

This diploma thesis proposed a business plan for a company operating in the new, emerging industry of online educational lectures. The company is developing a platform for teaching foreign languages through the internet. With the contribution of primary sources, secondary sources, academic literature and analytical tools the author of this thesis investigated the customer needs and the demand for a new service.

Theoretical part of this thesis employed analytical literature and recent sources for introduction of the fundamental terms, such as small business, a start-up company, business planning or technological innovation. The analytical part utilized both primary and secondary sources together with analytical tools such as Porter's five forces model, SWOT analysis or PEST analysis for the investigation of external and micro environment of the company. The company operates in highly fragmented market of language schools and private lectures. These two parts of the diploma thesis underpinned the full business plan, which is proposed in the final chapter.

The business plan introduced concrete market entry steps, marketing plan and estimation of incomes and expenses. Potential success of the company depends mainly on successful software development, internet marketing activities and individual approach to customers – private lecturers, language schools and student. If the company follows the marketing plan, it will achieve break even point in Q3 / 2012. It is necessary to avoid risks identified in this business plan. Risks are mainly connected with own software development and overestimated demand for the new service.

This master thesis had several objectives, which have been accomplished. There have been developed the full business plan for a company with critical analysis of the company business environment. SWOT analysis of the industry has been included in the analytical part. The final part of this diploma thesis have proposed strategic options of future development of the company and evaluation of risks connected with the idea.

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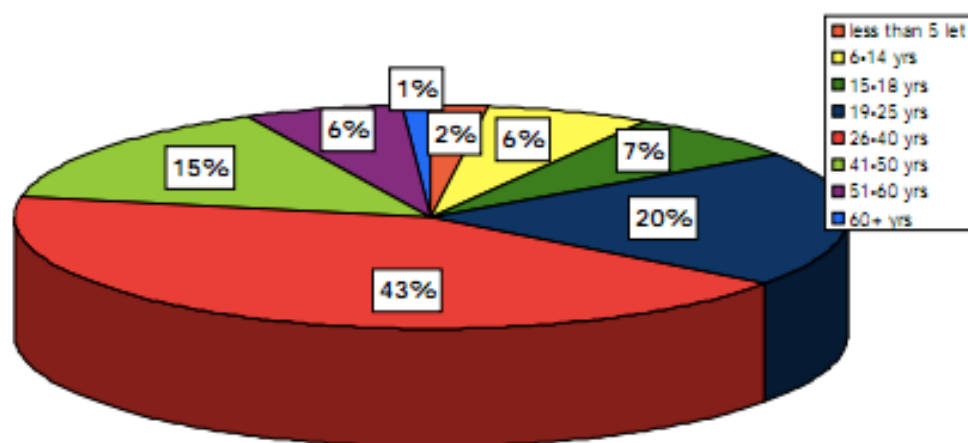
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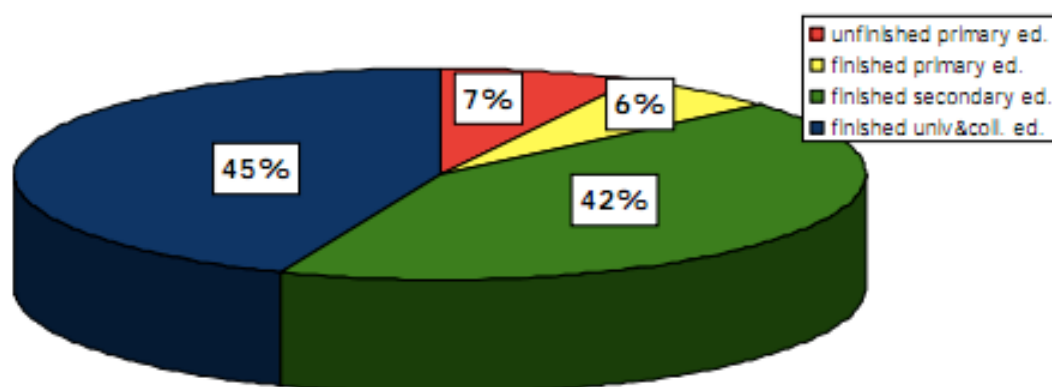
## Appendixes

### Appendix 1. The structure of Czech student of foreign languages



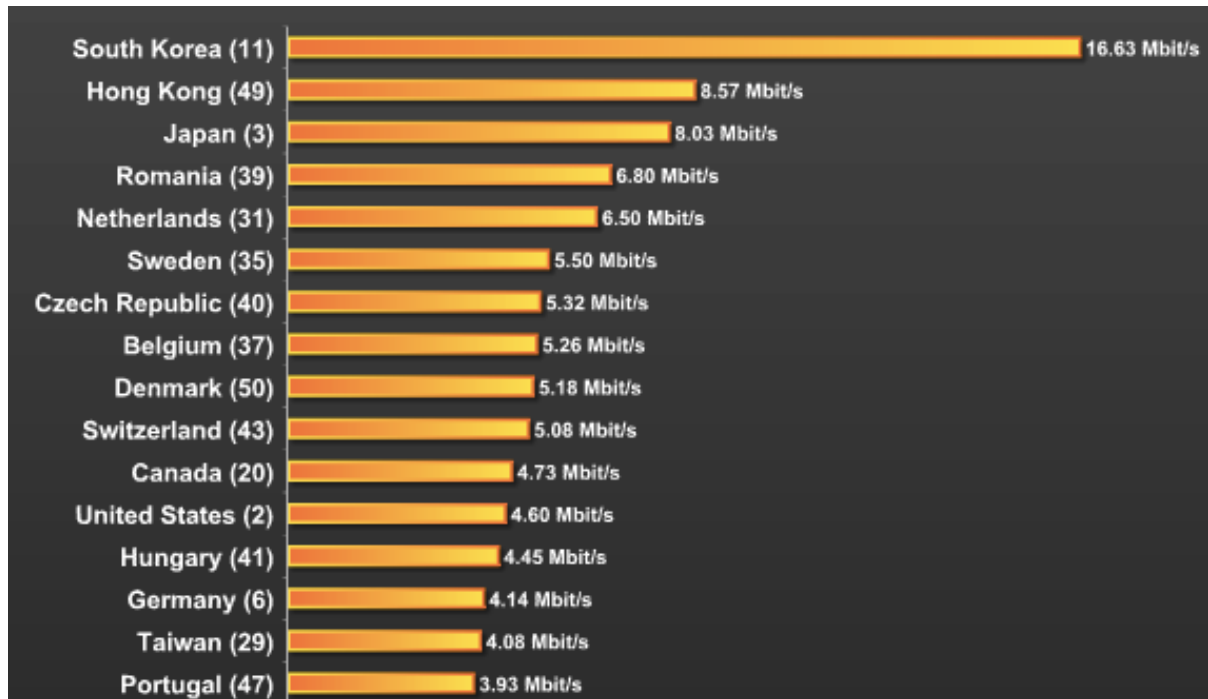
Source: GFK CZECH, *The Language Training Market In Czech Republic* [online], 2007.  
Available at: [http://dsp-psd.pwgsc.gc.ca/collection\\_2007/ic/Iu44-50-2007E.pdf](http://dsp-psd.pwgsc.gc.ca/collection_2007/ic/Iu44-50-2007E.pdf) [Accessed 19 August 2011]

## Appendix 2. The structure of Czech student of foreign languages



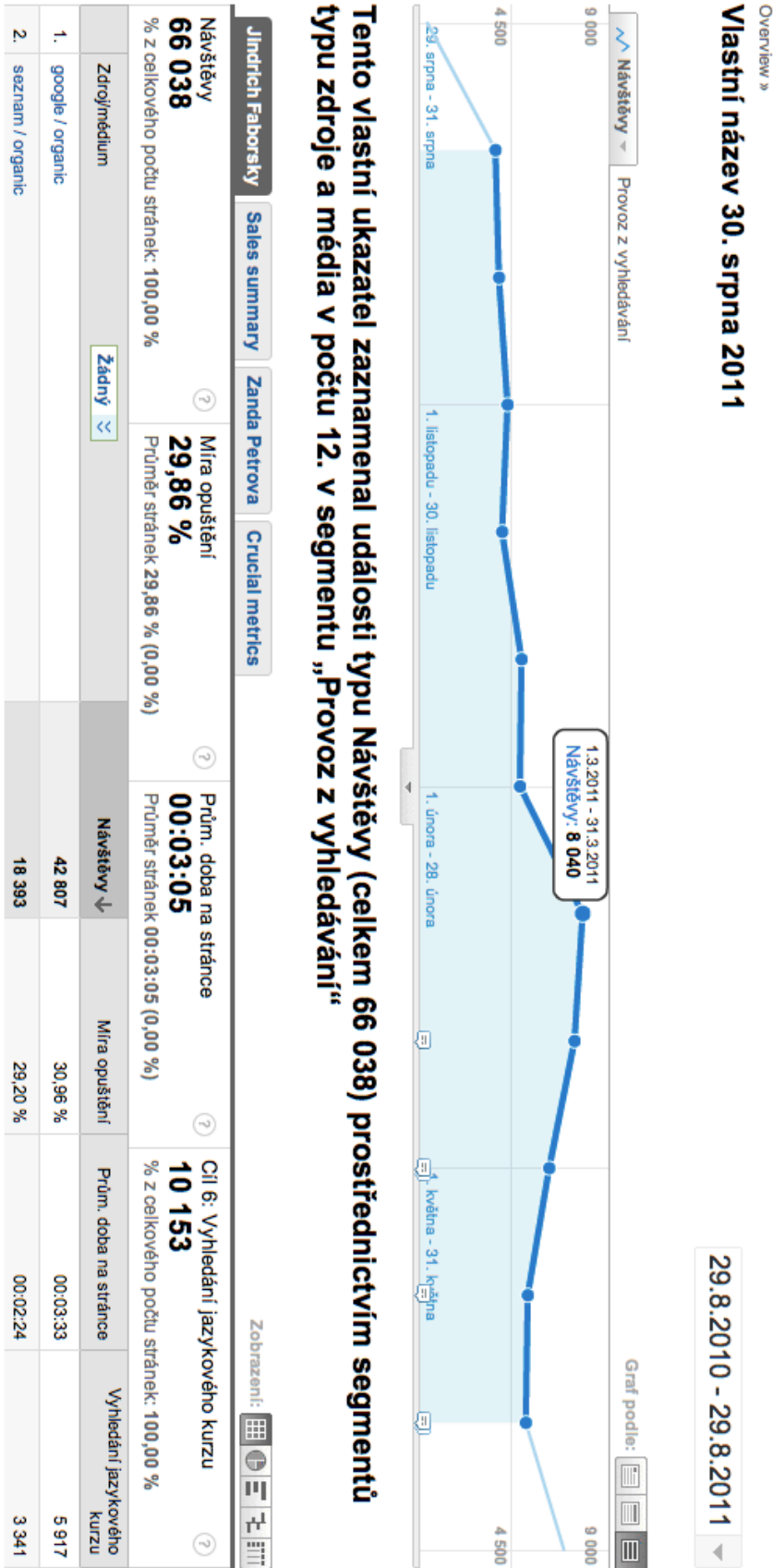
Source: GFK CZECH, *The Language Training Market In Czech Republic* [online], 2007.  
Available at: [http://dsp-psd.pwgsc.gc.ca/collection\\_2007/ic/Iu44-50-2007E.pdf](http://dsp-psd.pwgsc.gc.ca/collection_2007/ic/Iu44-50-2007E.pdf) [Accessed 19 August 2011]

### Appendix 3. Internet connection speeds users across the world



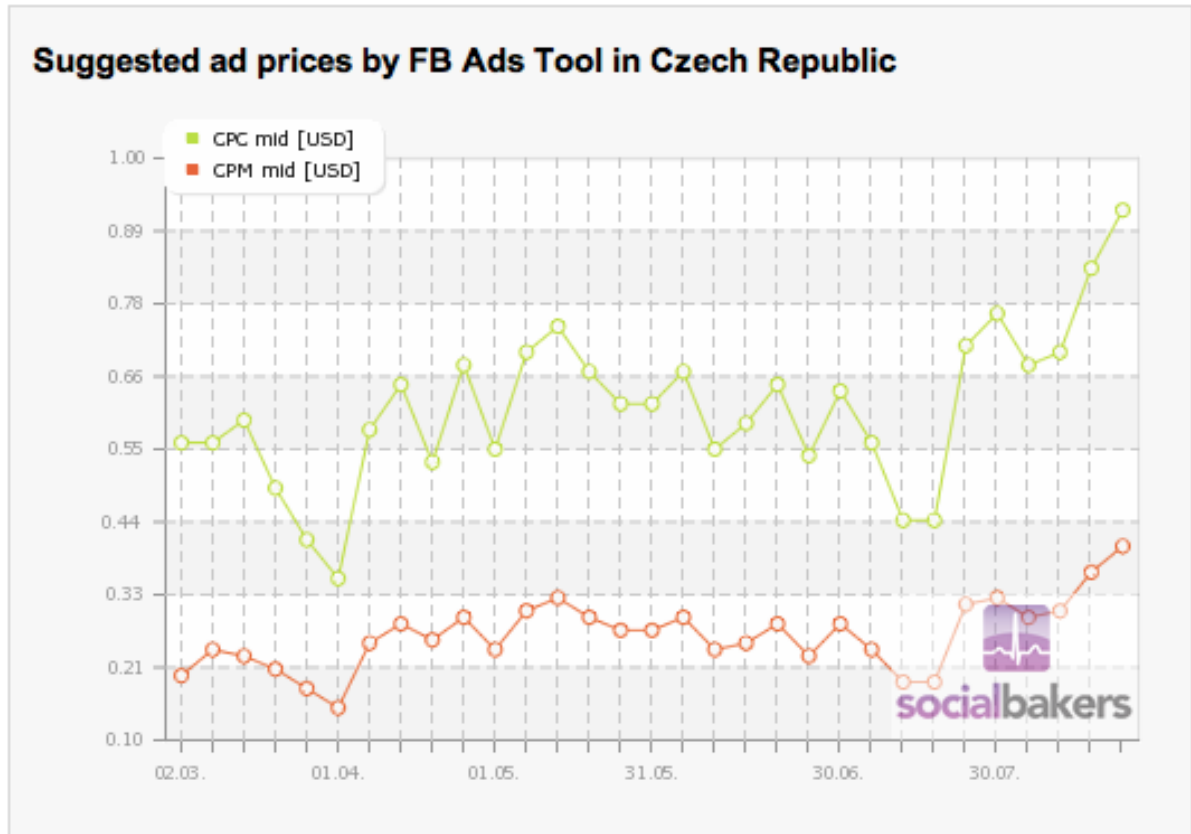
PINGDOM, *Real connection speeds for internet users across the world* [online]. Available at: <http://royal.pingdom.com/2010/11/12/real-connection-speeds-for-internet-users-across-the-world/> [Accessed 18 August 2011]

Appendix 4. Ad prices development on Facebook in Czech Republic



Tento vlastní ukazatel zaznamenal události typu Návštěvy (celkem 66 038) prostřednictvím segmentů typu zdroj a média v počtu 12. v segmentu „Provoz z vyhledávání“

## Appendix 5. Ad prices development on Facebook in Czech Republic



Source: SOCIALBAKERS, *Facebook statistics for Czech republic* [online]. Available at: <http://www.socialbakers.com/facebook-statistics/czech-republic> [Accessed 12 August 2011]

## Appendix 6. New logo of the company





## Appendix 7. Design preview – Profile of the language school

OnlineLektor.cz


Registrace nebo Přihlásit se

DomůJazykyUčiteléDiskuzeBlogO nás

Cesta domů > Učitelé > Kurzy Jilek s.r.o. > Profil


ProfilAktuální výukaUčitelé (20)Komentáře (34)NovinkyMarketingStudijní materiályMailBox

**Kurzy Jilek s.r.o.**  
Učíme protože nás to baví



Štefánikova 2, 602 00 Brno  
[zobraz na mapě](#)

**Web** : [www.kurzylilek.cz](http://www.kurzylilek.cz)  
**Email** : [info@kurzylilek.cz](mailto:info@kurzylilek.cz)  
**Telefon** : 776 676 876

 ověřeno  
onlinelektor.cz

**Jazyky:** [Angličtina](#), [Němčina](#), [Japonština](#)

**Certifikáty:** TOEFL, FCE, FCA, DELE

**Odučeno** na OnlineLektor: 213 hodin

**Učitelé:** [20](#)


**Aktuální novinky**

15.02 Letní kurz angličtiny více ...


15.03 Letní kurz němčiny více ...

01.04 Den otevřených dveí více ...


**Učitelé** Kurzy Jilek s.r.o.



**Pavla Novotná**  
**Angličtina, Němčina**  
Praxe výuky 10 let, 5 let praktické zkušenosti v zahraničí  
★★★★☆  
[více info](#)



**Pavla Novotná**  
**Angličtina**  
Praxe výuky 10 let, 5 let praktické zkušenosti v zahraničí  
★★★★☆  
[více info](#)



**Pavla Novotná**  
**Angličtina, Španělština**  
Praxe výuky 10 let, 5 let praktické zkušenosti v zahraničí  
★★★★☆  
[více info](#)

**Kalendář výuky** (Kurzy Jilek s.r.o.)

ÚnorBřezenDuben >>

2009

Angličtina	Němčina	Francouzština	Španělština
Začátečník (12 lekcí)	Začátečník (12 lekcí)	Začátečník (12 lekcí)	Začátečník (12 lekcí)
Mírně pokročilý (2 lekcí)	Mírně pokročilý (2 lekcí)	Mírně pokročilý (2 lekcí)	Mírně pokročilý (2 lekcí)
Středně pokročilý (22 lekcí)	Středně pokročilý (22 lekcí)	Středně pokročilý (22 lekcí)	Středně pokročilý (22 lekcí)
Pokročilý (2 lekcí)	Pokročilý (2 lekcí)	Pokročilý (2 lekcí)	Pokročilý (2 lekcí)

O službě | Učitelé | Jazyky | Výukový materiál | Vzdělávací materiály

Forum | Blog | Facebook | Tweeter

Obchodní podmínky | Mapa stránek

## Appendix 7. Design preview – Official page of the project



ONLINE  
LEKTOR

Přihlášení / Zapomenuté heslo / Registrace

Domů

Jazykové

Jazykové školy

Blog

O nás

vyhledávání

**Jazykových kurzů**

jazykové školy z celé republiky

Chcete jazykový kurz šitý na míru? **již brzy**

Sestavte si vlastní kurz, dle vašich požadavků.  
Určete si místo, jazyk, datum i čas

Sestavit kurz

Hledej kurz

### O projektu OnlineLektor

**OnlineLektor** je nový český projekt, který se snaží přinést moderní technologie do světa **jazykového vzdělávání**. Naším hlavním posláním je vybudovat plnohodnotný systém vyučování přes internet. Vedle toho se snažíme ulehčit studentům získání **informací o jazykových školách** a především vyhledání a nákup konkrétního **jazykového kurzu**.

#### Jazykové kurzy skutečně přehledně

Díky vyhledávači jazykových kurzů na OnlineLektor.cz už nemusíte vybírat pouze podle ceny. Hledáte kurz angličtiny, němčiny či nějakého méně obvyklého jazyka? Prohlédněte si profily jazykových škol, profily s informacemi o samotných lektorech, přečtete si něco o lidech, kteří Vás budou učit.

#### Jak funguje vyhledávač jazykových kurzů?

Jednoduše zadejte požadovaný cizí jazyk a město, ve kterém hledáte jazykovou školu. OnlineLektor Vám dále nabídne výčet jazykových kurzů, které splňují Vaše požadavky. Po vyhledání si všimněte tlačítka "**Více filtrování**" pod zadáváním jazyka a města. Zde můžete jednoduše upřesnit požadovanou pokročilost, cenu, čas a dny výuky cizího jazyka.

#### Více o projektu

Projekt OnlineLektor byl založen září roku 2010 po účasti na českých startup soutěžích a výhře v soutěži **Podnikavá hlava**. Zajímá Vás projekt více? Čtete **naš blog**, a nebo se podívejte na **Facebook stránky**.

Novinky

**21.7.** Vítáme v systému **Jazykové centrum Correct**.

**30.6.** Aktualizovali jsme data o kurzech.

**12.6.** OnlineLektor je partnerem jazykové školy **Jazz-com**, která vyučuje přes platformu Second Life.

Partneři projektu





## Appendix 8. Design preview – Interactive social plugins for language schools

OnlineLektor.cz

Registrace nebo Přihlásit se

DomůJazykyUčiteléDiskuzeBlogO nás

ProfilAktuální výukaUčitelé (20)Komentáře (34)NovinkyMarketingStudijní materiályMailBox

### Kurzy Jílek s.r.o.

Učíme protože nás to baví

▼ Miniaplikace

Vyber co chceš zobrazit na této mini aplikaci

Přednastavené kombinace

Propaguj učitele

Propaguj výuku

Propaguj firmu

Firemní logo

Název firmy

Jazyk


Výuková lekce

Hodnocení učitele

Datum zahájení

Tlačítko přihlásit se

Výuka španělštiny



Pavlína Rozemník Kolacna

★★★★☆

začátečník, gramatika

Začátek 15.3.2009

přihlásit se

Vyber barvy

Background Color

Link Color

Thin Outline Color

Thick Outline Color

Text Color

Vytvoř aplikaci

Zkopíruj a vlož tento kód na stránky kde chceš tuto aplikaci zobrazit

```
<div style="width: 250px"><iframe name="calendar" id="miframe" src="http://www.eventbrite.com/calendar-widget?id=538050444" width="250" height="400" marginheight="0" marginwidth="0" scrolling="no" frameborder="0" ></iframe><a href="http://www.eventbrite.com/r/ecal"></a></div>
```

Zkopíruj do schránky

Odešli tuto aplikaci do sociální sítě nebo na stránky

Facebook

MySpace

Blogger

TypePad

Digg

Twitter

Reddit

LinkedIn

O službě | Učitelé | Jazyky | Výukový materiál | Vzdělávací materiály

Fórum | Blog | Facebook | Tweeter

Obchodní podmínky | Mapa stránek

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